



**ORLEN**

**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

# ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

FOR THE 3<sup>rd</sup> QUARTER

**2019**

**ORLEN GROUP - SELECTED DATA**

	PLN million		EUR million	
	9 MONTHS ENDED 30/09/2019	9 MONTHS ENDED 30/09/2018	9 MONTHS ENDED 30/09/2019	9 MONTHS ENDED 30/09/2018
Sales revenues	83 703	80 286	19 427	18 875
Profit from operations increased by depreciation and amortisation (EBITDA)	7 461	8 055	1 732	1 894
Profit from operations (EBIT)	4 889	6 079	1 135	1 429
Profit before tax	4 684	6 025	1 087	1 416
<b>Net profit</b>	<b>3 716</b>	<b>4 892</b>	<b>862</b>	<b>1 150</b>
Total net comprehensive income	3 989	4 985	926	1 172
Net profit attributable to equity owners of the parent	3 717	4 849	863	1 140
Total net comprehensive income attributable to equity owners of the parent	3 990	4 898	926	1 152
Net cash from operating activities	8 116	5 941	1 884	1 397
Net cash (used) in investing activities	(2 373)	(2 921)	(551)	(687)
Net cash (used) in financing activities	(3 077)	(3 244)	(714)	(763)
Net increase/(decrease) in cash and cash equivalents	2 666	(224)	619	(53)
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	8.69	11.34	2.02	2.67

	30/09/2019	31/12/2018	30/09/2019	31/12/2018
Non-current assets	37 800	33 932	8 643	7 891
Current assets	33 751	30 209	7 717	7 025
<b>Total assets</b>	<b>71 551</b>	<b>64 141</b>	<b>16 360</b>	<b>14 916</b>
Share capital	1 058	1 058	242	246
Equity attributable to equity owners of the parent	38 216	35 727	8 738	8 309
<b>Total equity</b>	<b>38 227</b>	<b>35 739</b>	<b>8 740</b>	<b>8 311</b>
Non-current liabilities	14 241	11 506	3 256	2 676
Current liabilities	19 083	16 896	4 364	3 929
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share attributable to equity owners of the parent (in PLN/EUR per share)	89.35	83.53	20.43	19.43

**PKN ORLEN – SELECTED DATA**

	PLN million		EUR million	
	9 MONTHS ENDED 30/09/2019	9 MONTHS ENDED 30/09/2018	9 MONTHS ENDED 30/09/2019	9 MONTHS ENDED 30/09/2018
Sales revenues	66 666	63 701	15 473	14 976
Profit from operations increased by depreciation and amortisation (EBITDA)	4 807	5 261	1 116	1 237
Profit from operations (EBIT)	3 519	4 254	817	1 000
Profit before tax	3 742	4 971	868	1 169
<b>Net profit</b>	<b>3 062</b>	<b>4 205</b>	<b>711</b>	<b>989</b>
Total net comprehensive income	2 953	4 075	685	958
Net cash from operating activities	4 819	3 219	1 118	757
Net cash (used) in investing activities	(618)	(4 643)	(143)	(1 091)
Net cash from/(used in) financing activities	(2 328)	1 367	(540)	321
Net increase/(decrease) in cash	1 873	(57)	435	(13)
Net profit and diluted net profit per share (in PLN/EUR per share)	7.16	9.83	1.66	2.31

	30/09/2019	31/12/2018	30/09/2019	31/12/2018
Non-current assets	34 979	32 590	7 998	7 579
Current assets	24 577	22 207	5 619	5 164
<b>Total assets</b>	<b>59 556</b>	<b>54 797</b>	<b>13 617</b>	<b>12 743</b>
Share capital	1 058	1 058	242	246
<b>Total equity</b>	<b>33 090</b>	<b>31 634</b>	<b>7 566</b>	<b>7 357</b>
Non-current liabilities	11 699	10 236	2 675	2 380
Current liabilities	14 767	12 927	3 376	3 006
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share (in PLN/EUR per share)	77.37	73.96	17.69	17.20

The above data for the 9-month periods of 2019 and 2018 was translated into EUR using the following exchange rates:

- items in the statement of profit or loss and other comprehensive income and the statement of cash flows - by the arithmetic average of average exchange rates quoted by the National Bank of Poland as of the last day of the month during the reporting period: from 1 January to 30 September 2019 – 4.3086 EUR/PLN and 1 January to 30 September 2018 – 4.2535 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland on 30 September 2019 – 4.3736 EUR/PLN and as at 31 December 2018– 4.3000 EUR/PLN.

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INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS

FOR THE 9 AND 3-MONTH PERIOD ENDED 30 SEPTEMBER

2019

PREPARED IN ACCORDANCE WITH INTERNATIONAL  
FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION

**A. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION**
**Consolidated statement of profit or loss and other comprehensive income**

	NOTE	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Sales revenues	5.1	83 703	29 229	80 286	30 344
<i>revenues from sales of finished goods and services</i>		70 154	24 566	66 431	25 509
<i>revenues from sales of merchandise and raw materials</i>		13 549	4 663	13 855	4 835
Cost of sales	5.2	(72 853)	(25 192)	(70 100)	(26 495)
<i>cost of finished goods and services sold</i>		(60 923)	(21 060)	(57 781)	(22 264)
<i>cost of merchandise and raw materials sold</i>		(11 930)	(4 132)	(12 319)	(4 231)
<b>Gross profit on sales</b>		<b>10 850</b>	<b>4 037</b>	<b>10 186</b>	<b>3 849</b>
Distribution expenses		(4 648)	(1 637)	(3 498)	(1 223)
Administrative expenses		(1 295)	(425)	(1 149)	(384)
Other operating income	5.4	663	260	965	155
Other operating expenses	5.4	(750)	(440)	(545)	(137)
(Loss)/reversal of loss due to impairment of financial instruments		(48)	(23)	6	5
Share in profit from investments accounted for using the equity method		117	35	114	26
<b>Profit from operations</b>		<b>4 889</b>	<b>1 807</b>	<b>6 079</b>	<b>2 291</b>
Finance income	5.5	672	245	1 169	391
Finance costs	5.5	(876)	(485)	(1 222)	(134)
<b>Net finance income and costs</b>		<b>(204)</b>	<b>(240)</b>	<b>(53)</b>	<b>257</b>
(Loss)/reversal of loss due to impairment of financial instruments		(1)	-	(1)	-
<b>Profit before tax</b>		<b>4 684</b>	<b>1 567</b>	<b>6 025</b>	<b>2 548</b>
Tax expense		(968)	(301)	(1 133)	(473)
<i>current tax</i>		(877)	(357)	(1 021)	(429)
<i>deferred tax</i>		(91)	56	(112)	(44)
<b>Net profit</b>		<b>3 716</b>	<b>1 266</b>	<b>4 892</b>	<b>2 075</b>
<b>Other comprehensive income:</b>					
<b>which will not be reclassified subsequently into profit or loss</b>		(17)	(1)	(15)	(12)
<i>gains/(losses) on investments in equity instruments at fair value through other comprehensive income</i>		(18)	(1)	(18)	(14)
<i>deferred tax</i>		1	-	3	2
<b>which will be reclassified into profit or loss</b>		<b>290</b>	<b>321</b>	<b>108</b>	<b>(132)</b>
<i>hedging instruments</i>		(297)	(151)	(342)	40
<i>hedging costs</i>		57	(20)	67	17
<i>exchange differences on translating foreign operations</i>		480	445	331	(177)
<i>deferred tax</i>		50	47	52	(12)
<b>Total net comprehensive income</b>		<b>3 989</b>	<b>1 586</b>	<b>4 985</b>	<b>1 931</b>
<b>Net profit attributable to</b>		<b>3 716</b>	<b>1 266</b>	<b>4 892</b>	<b>2 075</b>
<i>equity owners of the parent</i>		3 717	1 266	4 849	2 063
<i>non-controlling interest</i>		(1)	-	43	12
<b>Total net comprehensive income attributable to</b>		<b>3 989</b>	<b>1 586</b>	<b>4 985</b>	<b>1 931</b>
<i>equity owners of the parent</i>		3 990	1 586	4 898	1 924
<i>non-controlling interest</i>		(1)	-	87	7
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		8.69	2.96	11.34	4.83

The accompanying notes disclosed on pages 9 – 28 are an integral part of this the interim condensed consolidated financial statements.

**Consolidated statement of financial position**

	NOTE	30/09/2019 (unaudited)	31/12/2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		31 788	31 390
Intangible assets		1 352	1 323
Right-of-use asset	5.10.1	3 692	-
Investments accounted for using the equity method		660	650
Deferred tax assets		40	70
Derivatives	5.7	52	161
Long-term lease receivables		15	-
Other assets	5.7	201	338
		<b>37 800</b>	<b>33 932</b>
<b>Current assets</b>			
Inventories		14 698	14 362
Trade and other receivables		11 336	10 479
Current tax assets		215	114
Cash and cash equivalents		6 813	4 192
Non-current assets classified as held for sale		29	202
Derivatives	5.7	374	524
Short-term lease receivables		12	-
Other assets	5.7	274	336
		<b>33 751</b>	<b>30 209</b>
<b>Total assets</b>		<b>71 551</b>	<b>64 141</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		171	361
Revaluation reserve		(32)	(15)
Exchange differences on translating foreign operations		1 189	709
Retained earnings		34 603	32 387
<b>Equity attributable to equity owners of the parent</b>		<b>38 216</b>	<b>35 727</b>
<b>Non-controlling interests</b>		<b>11</b>	<b>12</b>
<b>Total equity</b>		<b>38 227</b>	<b>35 739</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans and bonds	5.6	8 381	8 598
Provisions	5.8	1 065	1 055
Deferred tax liabilities		1 462	1 445
Derivatives	5.7	58	42
Lease liabilities		3 095	-
Other liabilities	5.7	180	366
		<b>14 241</b>	<b>11 506</b>
<b>Current liabilities</b>			
Trade and other liabilities		16 165	13 697
Lease liabilities		597	-
Liabilities from contracts with customers		309	231
Loans and bonds	5.6	401	1 193
Provisions	5.8	903	1 019
Current tax liabilities		189	473
Derivatives	5.7	234	193
Other liabilities	5.7	285	90
		<b>19 083</b>	<b>16 896</b>
<b>Total liabilities</b>		<b>33 324</b>	<b>28 402</b>
<b>Total equity and liabilities</b>		<b>71 551</b>	<b>64 141</b>

The accompanying notes disclosed on pages 9 – 28 are an integral part of this the interim condensed consolidated financial statements.

**Consolidated statement of changes in equity**

	Equity attributable to equity owners of the parent							Total equity
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total	Non-controlling interests	
01/01/2019 (approved data)	2 285	361	(15)	709	32 387	35 727	12	35 739
Impact of IFRS 16 adoption	-	-	-	-	(4)	(4)	-	(4)
01/01/2019 (converted data)	2 285	361	(15)	709	32 383	35 723	12	35 735
Net profit/(loss)	-	-	-	-	3 717	3 717	(1)	3 716
Items of other comprehensive income	-	(190)	(17)	480	-	273	-	273
<b>Total net comprehensive income</b>	-	<b>(190)</b>	<b>(17)</b>	<b>480</b>	<b>3 717</b>	<b>3 990</b>	<b>(1)</b>	<b>3 989</b>
Dividends	-	-	-	-	(1 497)	(1 497)	-	(1 497)
<b>30/09/2019</b>	<b>2 285</b>	<b>171</b>	<b>(32)</b>	<b>1 189</b>	<b>34 603</b>	<b>38 216</b>	<b>11</b>	<b>38 227</b>
(unaudited)								
01/01/2018 (approved data)	2 285	331	5	334	29 242	32 197	3 014	35 211
Impact of IFRS 9 adoption	-	-	-	-	(9)	(9)	-	(9)
01/01/2018 (converted data)	2 285	331	5	334	29 233	32 188	3 014	35 202
Net profit	-	-	-	-	4 849	4 849	43	4 892
Items of other comprehensive income	-	(241)	(15)	305	-	49	44	93
<b>Total net comprehensive income</b>	-	<b>(241)</b>	<b>(15)</b>	<b>305</b>	<b>4 849</b>	<b>4 898</b>	<b>87</b>	<b>4 985</b>
Change in structure	-	-	-	-	(967)	(967)	(2 564)	(3 531)
Dividends	-	-	-	-	(1 283)	(1 283)	-	(1 283)
<b>30/09/2018</b>	<b>2 285</b>	<b>90</b>	<b>(10)</b>	<b>639</b>	<b>31 832</b>	<b>34 836</b>	<b>537</b>	<b>35 373</b>
(unaudited)								

The accompanying notes disclosed on pages 9 – 28 are an integral part of this the interim condensed consolidated financial statements.

**Consolidated statement of cash flows**

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
<b>Cash flows from operating activities</b>				
<b>Profit before tax</b>	<b>4 684</b>	<b>1 567</b>	<b>6 025</b>	<b>2 548</b>
Adjustments for:				
Share in profit from investments accounted for using the equity method	(117)	(35)	(114)	(26)
Depreciation and amortisation	2 572	893	1 976	677
Foreign exchange (profit)/loss	154	239	234	(148)
Net interest	192	67	149	53
Dividends	(5)	-	(4)	-
(Profit)/Loss on investing activities	182	175	(192)	(145)
Change in provisions	684	167	451	172
Change in working capital	1 378	726	(1 477)	631
<i>inventories</i>	(175)	28	(2 830)	(1 026)
<i>receivables</i>	(625)	702	(2 494)	(633)
<i>liabilities</i>	2 178	(4)	3 847	2 290
Other adjustments, incl.:	(345)	(26)	(264)	220
<i>rights received free of charge</i>	(501)	(164)	(366)	(152)
<i>change in balances of settlements due to settled derivatives</i>	218	255	76	74
Income tax (paid)	(1 263)	(342)	(843)	(430)
<b>Net cash from operating activities</b>	<b>8 116</b>	<b>3 431</b>	<b>5 941</b>	<b>3 552</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(2 798)	(1 070)	(3 270)	(1 065)
Acquisition of shares	-	-	(25)	-
Disposal of property, plant and equipment, intangible assets and right-of-use asset	237	3	126	21
Dividends received	112	-	129	-
Settlement of derivatives not designated as hedge accounting	77	37	127	39
Other	(1)	(2)	(8)	(4)
<b>Net cash (used) in investing activities</b>	<b>(2 373)</b>	<b>(1 032)</b>	<b>(2 921)</b>	<b>(1 009)</b>
<b>Cash flows from financing activities</b>				
Change in cash related to purchase of non-controlling interest of UNIPETROL, a.s	200	-	(4 222)	(691)
Proceeds from loans received	369	7	2 188	57
Bonds issued	-	-	600	200
Repayment of loans	(477)	(65)	(91)	(2)
Redemption of bonds	(1 000)	-	(200)	-
Interest paid from loans and bonds	(196)	(14)	(200)	(24)
Interest paid on lease	(51)	(16)	(7)	(3)
Dividends paid	(1 497)	(1 497)	(1 284)	(1 283)
<i>to equity owners of the parent</i>	(1 497)	(1 497)	(1 283)	(1 283)
<i>to non-controlling interest</i>	-	-	(1)	-
Payments of liabilities under finance lease agreements	(423)	(153)	(24)	(7)
Other	(2)	(1)	(4)	(3)
<b>Net cash (used) in financing activities</b>	<b>(3 077)</b>	<b>(1 739)</b>	<b>(3 244)</b>	<b>(1 756)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2 666</b>	<b>660</b>	<b>(224)</b>	<b>787</b>
Effect of changes in exchange rates	(45)	(15)	(8)	(53)
Cash and cash equivalents, beginning of the period	4 192	6 168	6 244	5 278
<b>Cash and cash equivalents, end of the period</b>	<b>6 813</b>	<b>6 813</b>	<b>6 012</b>	<b>6 012</b>
<i>including restricted cash</i>	63	63	99	99

The accompanying notes disclosed on pages 9 – 28 are an integral part of this the interim condensed consolidated financial statements.



**EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**1. Principal activity of the ORLEN Group**

The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") with its headquarters in Plock, 7 Chemików Street.

The core business of the ORLEN Group is the processing of crude oil and the production of fuel, petrochemical and chemical products as well as their wholesale and retail sale. The ORLEN Group also conducts exploration, recognition and extraction of hydrocarbons, and generates, distributes and trades of electricity and heat.

The activity of the ORLEN Group companies is also service-related activity: storage of crude oil and fuels, transportation, maintenance and overhaul services, laboratory, security, design, administrative, insurance and financial services.

**2. Information on principles adopted in the preparation of the interim condensed consolidated financial statements**
**2.1. Statement of compliance and general principles of preparation**

This interim condensed consolidated financial statements were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 29 March 2018 on current and periodical information provided by issuers of securities and terms of deeming information required by the regulations of a non-member state equivalent (Official Journal 2018, item 757) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 30 September 2019 and as at 31 December 2018, financial results and cash flows for the 9 and 3-month periods ended 30 September 2019 and 30 September 2018.

This interim condensed consolidated financial statements were prepared assuming that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of this interim condensed consolidated financial statements there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

The duration of the Parent Company and the entities comprising the ORLEN Group is unlimited.

This interim condensed consolidated financial statements, except for the consolidated statement of cash flows, were prepared using the accrual basis of accounting.

**2.2. Accounting principles and amendments to International Financial Reporting Standards (IFRS)**
**2.2.1. Accounting principles**

In this interim condensed consolidated financial statements, the significant accounting policies applied by the Group and significant values based on judgments and estimates were the same as described in individual explanatory notes in the Consolidated Financial Statements for 2018, except for the adopted new IFRS 16 – "Lease" described in note 2.2.2.

Selected accounting principles	Note	Page
Consolidation principles	7.1	14
Operating segments	9.1	18
Sales revenues	10.1.1	20
Costs	10.1.8	23
Income tax expenses (tax expense)	10.1.13	25
Property, plant and equipment	10.2.1	26-27
Exploration and extraction of mineral resources	10.2.1	26-27
Intangible assets	10.2.2	28-29
Investments accounted for using the equity method	10.2.4	30
Impairment of property, plant and equipment and intangible assets	10.2.5	32
Inventories	10.2.6.1	35
Trade and other receivables	10.2.6.2	36
Trade and other liabilities	10.2.6.4	37
Net debt	10.2.7	38
Equity	10.2.8	39-40
Provisions	10.2.10	43
Financial instruments and fair value measurement	10.3	45-46
Lease	10.4.2	56
Contingent assets and liabilities	10.4.4	57

**2.2.2. Amendments to International Financial Reporting Standards (IFRS)**
**➤ IFRS 16 Lease (IFRS 16)**
**Selected accounting principles**

IFRS 16 "Lease" issued on 13 January 2016 was adopted by the European Union on 31 October 2017.

Since 1 January 2019, the Group has applied the new Standard in the recognition, measurement, and presentation of lease agreements. The application of the new Standard was made in accordance with the transitional provisions contained in IFRS 16.

Implementation of IFRS 16 within the Group was carried out using the modified retrospective approach, and therefore, comparative data for the year 2018 was not converted and any cumulative effect of the first application of the new Standard was included as an adjustment to the opening balance of retained earnings on the first day of application.

As at 1 January 2019 the Group has recognised right-of-use asset in the amount of PLN 3,316 million and lease liability in the amount of PLN 3,352 million, what caused a difference in value to the position of retained earnings in the amount of PLN 4 million and the recognition of receivables from subleasing in the amount of PLN 32 million.

### **The Group as a lessee**

#### **Identifying a lease**

The Group applies new guidelines for identifying a lease only for contracts that it has concluded (or amended) on the day of its first application, i.e. 1 January 2019 or after that date. Thereby, for all contracts concluded before 1 January 2019, the Group applied the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of first application. As at 1 January 2019 the Group applies IFRS 16 to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.

At the time of conducting a new contract, the Group assesses whether the contract is a lease or whether it contains a lease. An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for remuneration. In order to assess if an agreement transfers the right to control the use of an identified asset for a given period, the Group shall determine whether throughout the entire period of use the customer enjoys the following rights:

- a) the right to obtain substantially all economic benefits from the use of the identified asset and
- b) the right to manage the use of the identified asset.

Should the Group have the right to control the use of an identified asset for part of the duration of an agreement only, the agreement contains a lease in respect of this part of the period.

Rights resulting from lease, rental, hire or other agreements which meet the definition of a lease as per IFRS 16 are recognised as right-of-use underlying assets within the framework of non-current assets with a corresponding lease liabilities.

#### **Initial recognition and measurement**

The Group recognises the right-of-use asset as well as the lease liability on the date of commencement of the lease.

On the date of commencement the Group measured the right-of-use asset at cost.

The cost of the right-of-use asset is inclusive of the following:

- a) the amount of the initial measurement of the lease liability,
- b) all lease payments made on or before the date of commencement, less any lease incentives received,
- c) all initial costs directly incurred by the lessee, and
- d) estimated costs to be incurred by the lessee in connection with the dismantling and removal of underlying assets, the refurbishment of premises within which they were located, or the refurbishment of underlying assets to the condition required by the terms and conditions of the lease, unless these costs are incurred with the aim of creating stocks.

Lease payments included in the evaluation of lease liability include:

- fixed lease payments;
- variable lease payments, which depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts that are expected to be paid by the lessee as part of the guaranteed residual value;
- the call exercise price, should it be assumed with reasonable certainty that the Group shall decide to exercise the call option;
- penalty payments for termination of a lease, unless it can be assumed with reasonable certainty that the Group shall not terminate the lease.

Variable payments, which do not depend on an index or a rate should not be taken into account when calculating lease liability. Such payments are recognised in the profit or loss in the period of the occurrence which renders them payable.

The lease liability on the commencement date shall be calculated on the basis of the current lease payments that are payable by that date and discounted by the marginal interest rates of the lessee.

The Group does not discount lease liabilities by the lease interest rate as the calculation of such rates requires information known only to the lessor (the non-guaranteed final value of the leased asset as well as the direct costs incurred by the lessor).

#### **Determining the lessee's marginal interest rate**

Marginal interest rates were specified as the sum of:

- a) the risk free rate, based on the Interest Rate Swap (IRS) in accordance with the maturity of the discount rate, and the relevant basic rate for the given currency, as well as
- b) the Group's credit risk premium based on the credit margin calculated inclusive of the credit risk segmentation of all companies which have entered into lease agreements.

#### **Subsequent measurement**

After the commencement date, the lessee measures the right-of-use asset applying the cost model.

In applying the cost model, the lessee shall measure the cost of the right-of-use asset:

- a) less any accumulated depreciation and accumulated impairment losses; and
- b) adjusted in respect of any updates to the measurement of lease liability not resulting in the necessity for recognition of a separate asset.

After the date of commencement the lessee shall measure the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability,
- b) decreasing the carrying amount to reflect any lease payments made, and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to revise in-substance fixed lease payments.

The Group shall remeasure the lease liability in cases where there is a change in future lease payments as a result of a change in the index or rate used to determine lease payments (e.g. a change in payment associated with the right of perpetual use), in cases where there is a change in the amount expected by the Group to be payable under the residual amount guarantee, or if the Group reassesses the likelihood of the exercise of the call option, or the extension or termination of the lease.

Updating the lease liability also adjusts the value of the right-of-use asset. In a situation where the carrying amount of the right-of-use asset has been reduced to zero, further reductions in the measurement of the lease liability shall be recognised by the Group as profit or loss.

### **Depreciation**

The right-of-use asset is depreciated linearly over the shorter of the following two periods: the period of lease or the useful life of the underlying asset. However in cases where the Group can be reasonably sure that it will regain ownership of the asset prior to the end of the lease term, right-of-use shall be depreciated from the day of commencement of the lease until the end of the useful life of the asset.

The useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.

The Group has leases agreements regarding mainly:

- a) Land, including:
  - perpetual usufruct of land for a fixed period of up to 99 years,
  - land for petrol stations and motorway service areas concluded for a specified period up to 30 years and for an indefinite period.
- b) Buildings and construction, including petrol stations, storage tank, office spaces for a fixed period up to 30 years.
- c) Vehicles and other, including:
  - railway tank concluded for a specified period of 3 to 10 years,
  - cars for a fixed period up to 3 years,
  - locomotives for a fixed period up to 3 years.

### **Impairment**

The Group applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

### **Exemptions, simplifications and practical solutions in the application of IFRS 16**

#### **Exemptions**

Agreements not included within the scope of IFRS 16:

- lease for the exploration or use of natural resources,
- licences granted and recognised in accordance with IFRS 15 – “Revenue from Contracts with Customers”, and
- lease of intangible assets in accordance with IAS 38 - Intangible Assets

#### **Simplifications and practical solutions**

##### **Short-term lease**

The Group applies a practical solution to short-term lease contracts, which are characterised by a maximum possible contract term of up to 12 months, including any options to extend.

Simplifications regarding these contracts involve the settlement of lease payments as costs:

- on a straight-line basis, for the duration of the lease agreement, or
- another systematic method, if it better reflects the way of spreading the benefits gained by the user in time.

##### **Leases of low-value assets**

The Group does not apply the rules concerning recognition, measurement and presentation outlined in IFRS 16 to lease agreements of low-value assets.

Low-value assets are considered to be those which have a value when new not higher than PLN 18,799 translated at the exchange rate of the first day of application, i.e. 1 January 2019 (representing USD 5,000) or the equivalent value in another currency as per the average closing rate of exchange of the National Bank of Poland at the moment of initial recognition of a contract.

Simplifications in respect of such contracts are due to the settlement of costs on:

- a straight-line basis for the term of the lease contract; or
- another systematic method basis should it be more representative of the time pattern of the user's benefit.

An asset covered by a lease must not be counted as a low-value asset if the asset would typically not be of low value when new. As low-value items, the Group includes for example: gas cylinders, coffee machines, and small items of furniture.

The underlying asset may have a low-value only if:

- a) the lessee may benefit from use of the underlying asset itself or in conjunction with other resources which are readily available to him, and
- b) the underlying asset is not highly dependent on or related to other assets.

If the lessee transfers asset into subleasing or expects the asset to be transferred to subleasing, then the main lease does not qualify as lease of a low-value asset.

### Determining the lease term: indefinite contracts

When establishing the term for indefinite leases contracts, the Group makes a professional judgment taking into account:

- expenditure incurred in connection with the contract or
- potential costs connected with the termination of the lease contract, including the costs involved in obtaining a new lease contracts, such as negotiation costs; reallocation costs, costs of identifying other underlying asset suitable for the lessee's needs; costs of integrating a new asset into the lessee's operations; or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location.

In cases where the costs connected with the termination of the lease contract are substantial, the lease term adopted is equal to that adopted for the depreciation period of a similar fixed asset with parameters similar to the subject of the lease.

Although the costs connected with the termination of the lease agreement may be reliably measured, it is necessary to determine a lease term during which there are no justifiable grounds for termination.

In cases where expenditure incurred in connection with the contract is substantial, the lease term adopted is equal to that of the expected period of economic benefits derived from the incurred expenses.

The value of the incurred expenses represents a separate asset to the right-of-use asset.

In case of the lack of expenses incurred in connection with the contract in question, or the lack or insignificance of costs connected with its termination, the termination period of the lease is adopted as the lease term.

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### PROFESSIONAL JUDGEMENT

#### Separating non-lease components

*The Group assesses whether the contract contains lease and non-lease components. Non-lease components are removed from contracts containing a lease component, for example service for assets covered by the contract.*

*However, in cases where a contract includes non-lease components considered by the Group to be immaterial within the context of the contract as a whole, the Group uses simplification which allows lease and non-lease components to be treated a single lease component.*

#### Determining the lease term

*In determining the lease term, the Group consider in all important facts and events behind the economic incentives to make use of the option to extend the lease or not to exercise the option of its termination. An assessment of a lease term is carried out on the date of commencement of the lease. A reassessment is made upon the occurrence of either a significant event or a significant change in circumstances, that the lessee controls, that impact such an assessment.*

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### ESTIMATIONS

#### The useful life of right-of-use asset

*The estimated useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.*

## 2.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial statements of foreign entities

### 2.3.1. Functional currency and presentation currency

The functional currency of the Parent Company and presentation currency of this interim condensed consolidated financial statements is the Polish Zloty (PLN). The data is presented in PLN million, unless otherwise stated.

### 2.3.2. Methods applied to translation of financial statements

Translation into PLN of financial statements of foreign entities, for consolidation purposes:

- particular assets and liabilities – at spot exchange rate as at the end of the reporting period,
- items of the statement of profit or loss and other comprehensive income and the statement of cash flows - at the average exchange rate for the reporting period (arithmetic average of daily average exchange rates published by the National Bank of Poland ("NBP") in a given period).

Foreign exchange differences resulting from the above recalculations are recognized in equity in the line exchange differences on translating foreign operations.

CURRENCY	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	9 MONTHS ENDED	3 MONTHS ENDED	9 MONTHS ENDED	3 MONTHS ENDED	30/09/2019	31/12/2018
	30/09/2019	30/09/2019	30/09/2018	30/09/2018		
EUR/PLN	4.3024	4.3197	4.2488	4.3056	4.3736	4.3000
USD/PLN	3.8288	3.8859	3.5591	3.7014	4.0000	3.7597
CZK/PLN	0.1674	0.1678	0.1662	0.1674	0.1693	0.1673
CAD/PLN	2.8807	2.9427	2.7638	2.8309	3.0212	2.7620

## 2.4. Information concerning the seasonal or cyclical character of the ORLEN Group's operations in the presented period

There is no significant seasonality or cyclicity to the ORLEN Group's operations.

### 3. Financial situation and the organization of the ORLEN Group

#### 3.1. Group achievements and factors that have a significant impact on interim condensed consolidated financial statements

##### Profit or loss for the 9 months of 2019

The increase of sales revenues of the ORLEN Group by PLN 3,417 million (y/y) to PLN 83,703 million reflects mainly increase in volume sales by 2% (y/y) to 32,420 thousand tons in all operating segments. An additional impact on the higher level of sales revenues had the depreciation of the PLN exchange rate against the foreign currencies. The decrease of crude oil prices by almost 8 USD/bbl resulted in decrease (y/y) of the quotation of main products of the ORLEN Group, i.e. fuel by (11%), diesel oil by (7%), JET fuel by (8%), ethylene by (8%) and propylene by (5%).

The operating expenses increased by PLN (4,049) million (y/y) to PLN (78,796) million. The largest item in this cost structure constitute the costs of materials and energy consumption related mainly to the crude oil and other chemicals used in technological processes. The increase in the costs of materials and energy consumption by 4% (y/y) resulted mainly from the higher crude oil processing in the ORLEN Group by 843 thousand tons and higher share of more expensive low-sulfur crude delivered by sea as a result of contamination with organic chlorides of crude oil sent via the Friendship pipeline and temporary suspension of supply via this pipeline.

Since January 2019 an emission fee has become applicable in Poland. The ORLEN Group as a producer and importer of motor fuels is obliged to pay emission fee as on the day of tax liability in excise tax. In connection with above, during the analysis period the emission fee increased cost of sales- additional information are presented in note [5.2](#).

The negative result of other operating activities amounted to PLN (87) million and included mainly impact of net positions of settlement and valuation of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) in the amount of PLN (120) million. The result of other operating activities in the 9-month period of 2019 was lower by PLN (507) million (y/y) due to lack of compensation received in 2018 related to the steam cracker unit accident in the Unipetrol Group and recognized compensation for improper execution of the contract of the power plant CCGT in Plock.

Share in profit from investments accounted for using the equity method was higher by PLN 3 million (y/y) and amounted to PLN 117 million.

As a result profit from operations amounted to PLN 4,889 million and was lower by PLN (1,190) million (y/y). An additional comment regarding the main reasons of the change in profit from operations increased by depreciation and amortisation (so-called EBITDA) is presented in point B1.

Net finance costs in the described period amounted to PLN (204) million and included net foreign exchange loss in the amount of PLN (228) million, net interest expenses in the amount of PLN (169) million and impact of settlement and valuation of derivatives in the amount of PLN 208 million.

After the deduction of tax charges in the amount of PLN (968) million, the net profit of the ORLEN Group for the 9 months of 2019 amounted to PLN 3,716 million and was lower by PLN (1,176) million (y/y).

##### Profit or loss for the 3<sup>rd</sup> quarter of 2019

Sales revenues of the ORLEN Group in the 3<sup>rd</sup> quarter of 2019 amounted to PLN 29,229 million and were lower by PLN (1,115) million (y/y). The decrease in sales revenues (y/y) reflects (18%) decrease in crude oil prices and as a result, also the quotation of major products fuel by (16%), diesel oil by (13%), heavy heating oil by (22%), propylene by (15%) and ethylene by (13%).

Total operating expenses decreased by PLN 848 million (y/y) to PLN (27,254) million mainly due to decrease by (13) USD/bbl quotation of crude oil prices and lower share of more expensive low-sulfur in processing structure, which affected on decrease in the cost of consumed materials and energy by PLN 1,640 million (y/y).

Since January 2019 an emission fee has become applicable in Poland. The ORLEN Group as a producer and importer of motor fuels is obliged to pay emission fee as on the day of tax liability in excise tax. In connection with above, during the analysis period the emission fee increased cost of sales- additional information are presented in note [5.2](#).

After consideration of negative result on other operating activities in the amount of PLN (180) million included mainly impact of net positions of settlement and valuation of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) in the amount of PLN (170) million and share in profit from investments accounted for under equity method in the amount of PLN 35 million, the operating profit amounted to PLN 1,807 million and was lower by PLN (484) million (y/y). An additional comment regarding the main reasons of the change in profit from operations increased by depreciation and amortisation (so-called EBITDA) is presented in point B1.

Net finance costs in the described period amounted to PLN (240) million and included mainly net positive impact of settlement and valuation of financial instruments in the amount of PLN 108 million, net foreign exchange loss in the amount of PLN (284) million and net interest expenses in the amount of PLN (56) million.

After the deduction of tax charges in the amount of PLN (301) million, the net profit of the ORLEN Group amounted to PLN 1,266 million and was lower by PLN (809) million (y/y).

##### Statement of financial position

As at 30 September 2019, the total assets of the ORLEN Group amounted to PLN 71,551 million and was higher by PLN 7,410 million in comparison with 31 December 2018.

As at 30 September 2019, the value of non-current assets amounted to PLN 37,800 million and was higher by PLN 3,868 million in comparison with the end of the previous year, mainly due to the recognition of right-of-use asset in the amount of PLN 3,692 million in connection with the implementation from 1 January 2019 new IFRS 16 and increase in property, plant and equipment and intangible assets by PLN 427 million.

The change in balance of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 2,574 million, including for the construction of a paraffin separation node from reforming raw material - MaxEne in PKN ORLEN, development of fertilizer production capacities in Anwil, construction of the Glikol installation in ORLEN Południe, construction of the Polyethylene 3 Installation, construction of the boiler house for the Steam Cracker Unit and neutralization of acidic waters and revitalization of POX in the Unipetrol Group, installation of propane-propylene fraction separation (PPF Spliter) in Lithuania and projects in retail and upstream segment, depreciation and amortisation in the amount of PLN (2,187) million

The value of current assets increased by PLN 3,542 million, mainly as an increase in trade and other receivables by PLN 857 million, balance of inventories by PLN 336 million, balance of cash and cash equivalents by PLN 2,621 million with a decrease in valuation of derivatives by PLN (150) million and decrease in non-current assets classified as held for sale by PLN (173) million mainly due to the sale in the 1<sup>st</sup> quarter of 2019 of upstream assets in Canada located in the Pouce Coupe area. The increase in trade receivables resulted mainly from higher volume of sales.

As at 30 September 2019, total equity amounted to PLN 38,227 million and was higher by PLN 2,488 million in comparison with the end of 2018, mainly due to recognition of net profit for the 9-month period of 2019 in the amount of PLN 3,716 million, dividend payments from the previous year's profit in the amount of PLN (1,497) million, the impact of exchange differences on translating foreign operations in the amount of PLN 480 million, the negative impact of the change in balance of hedging reserve in the amount PLN (190) million.

The value of trade and other liabilities increased by PLN 2,468 million compared to the end of 2018 mainly due to tax liabilities in the amount of PLN 978 million and trade liabilities in the amount of PLN 1,387 million. Trade liabilities include non-financial liability of the Unipetrol Group on the loan of crude oil from the state material reserves because of the suspension of crude oil supplies through the Friendship pipeline in the amount of PLN 179 million.

As at 30 September 2019 the value of provisions amounted to PLN 1,968 million and were lower by PLN (106) million compared to the end of 2018, mainly due to provision balance change of estimated CO<sub>2</sub> emissions and energy certificates in the total amount of PLN (87) million. The change results mainly from the net effect of recognition of provision in the amount of PLN 754 million based on weighted average method price of owned rights and certificates and their usage due to redemption of rights for 2018 in the amount of PLN (821) million.

As at 30 September 2019, net financial indebtedness of the ORLEN Group amounted to PLN 1,969 million and was lower by PLN (3,630) million in comparison with the end of 2018. The change in net financial indebtedness included the net repayment of loans, borrowings and bonds in the amount of PLN (1,108) million, an increase in cash and cash equivalents balance by PLN (2,621) million and the net impact of negative exchange differences from revaluation of the valuation of debt to a total amount of PLN 99 million.

#### **Statement of cash flows for the 9 months of 2019**

Proceeds of net cash from operating activities for the 9-month period of 2019 amounted to PLN 8,116 million and comprised mainly of profit from operations increased by depreciation and amortisation in the amount of PLN 7,461 million, the positive impact of the decrease in net working capital by PLN 1,378 million and income taxes paid in the amount of PLN (1,263) million and by share in financial result from investments accounted for under equity method in the amount of PLN (117) million and other adjustments which includes mainly change in the balance due to settlements of derivatives not designated as hedge accounting in the amount of PLN 218 million.

Net cash used in investing activities for the 9 months of 2019 amounted to PLN (2,373) million and comprised mainly of net expenses for the acquisition and sales of property, plant and equipment, intangible assets and right-of-use asset in the amount of PLN (2,561) million, settlement of derivatives not designated as hedge accounting in the amount of PLN 77 million and proceeds from dividends received in the 2<sup>nd</sup> quarter of 2019 in the amount of PLN 112 million.

Net outflows of cash from financing activities for the 9 months of 2019 amounted to PLN (3,077) million and comprised mainly of net outflows of loans and borrowings in the amount PLN (108) million, redemption of retail bonds in the amount of PLN (1,000) million, dividends paid in the amount of PLN (1,497) million, interest paid in the amount of PLN (247) million, payments of liabilities under lease agreements in the amount of PLN (423) million and net cash related to redemption of non-controlling shareholders of Unipetrol in the amount of PLN 200 million. In accordance with the agreement, bank Ceska Sportelna a.s. after the Basic Period of settlements with Unipetrol's former shareholders, transferred to PKN ORLEN 90% of unused amount due to former shareholders. The reimbursement of cash is temporary, as PKN ORLEN is obliged to systematically replenish the provisions for subsequent settlements with notifying shareholders, as to maintain safe level above 5% of outstanding amount due to squeeze-out of Unipetrol's shares.

Following inclusion of the revaluation of cash due to exchange differences, the cash balance in the 9-month period of 2019 increased by PLN 2,621 million and as at 30 September 2019 amounted to PLN 6,813 million.

#### **Statement of cash flows for the 3<sup>rd</sup> quarter of 2019**

In the 3<sup>rd</sup> quarter of 2019 the net cash from operating activities amounted to PLN 3,431 million and comprised mainly of profit from operations increased by depreciation and amortisation in the amount of PLN 2,700 million and the positive impact of decrease in a net working capital by PLN 726 million.

In the 3<sup>rd</sup> quarter of 2019 the net cash used in investing activities amounted to PLN (1,032) million and comprised mainly of net expenses for the acquisition and disposal of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (1,067) million and settlement of derivatives not designated as hedge accounting in the amount of PLN 37 million.

In the 3<sup>rd</sup> quarter of 2019 net expenses of cash used in financing activities amounted to PLN (1,739) million and comprised mainly of paid dividend in the amount of PLN (1,497) million and the net outflows of loans and borrowings in the amount of PLN (58) million, payments of liabilities under lease agreements in the amount of PLN (153) million and interest paid in the amount of PLN (30) million.

Following inclusion of the revaluation of cash due to exchange differences, the cash balance in the 3<sup>rd</sup> quarter of 2019 increased by PLN 645 million and as at 30 September 2019 amounted to PLN 6,813 million.

## Factors and events which may influence on future results

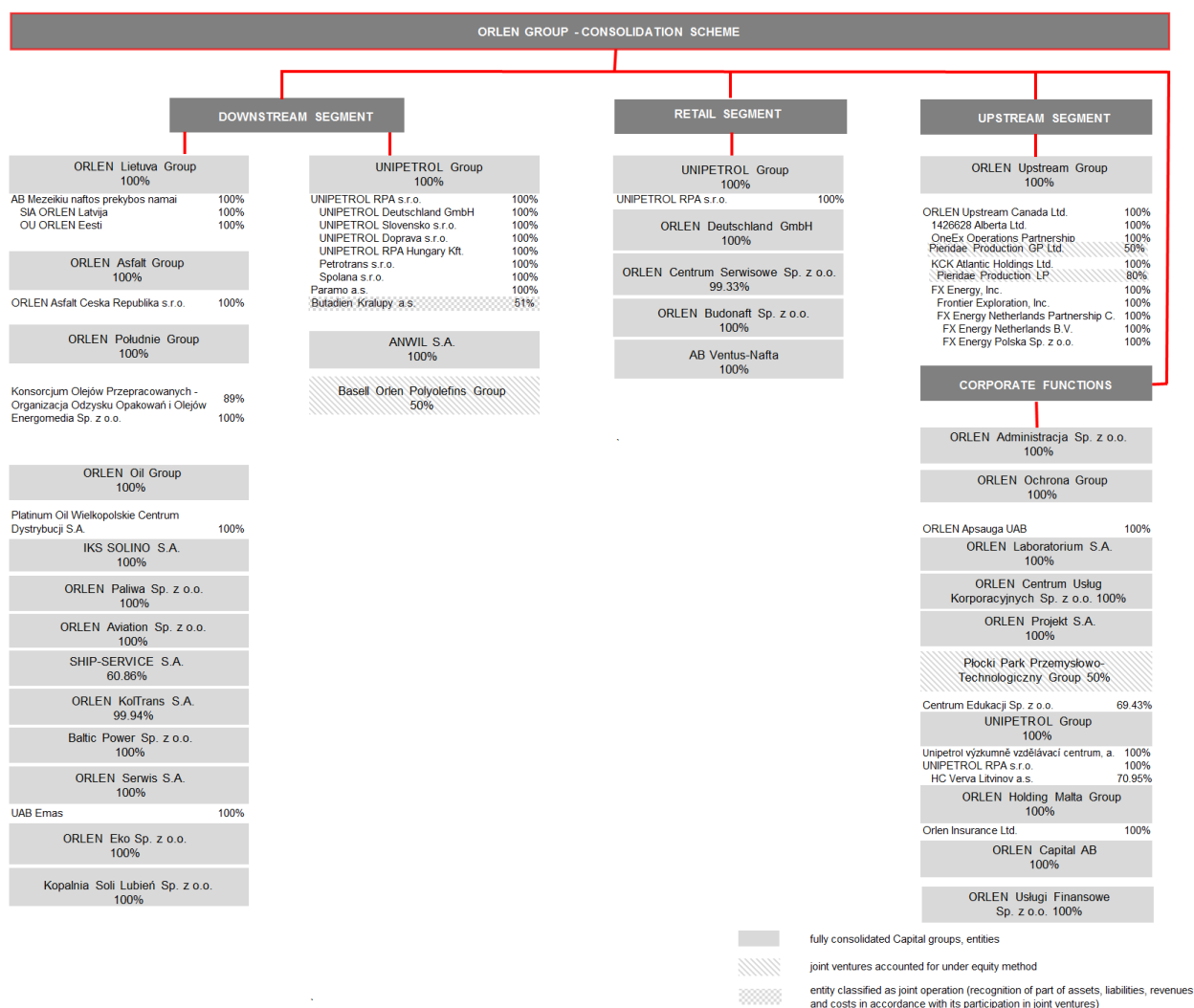
The factors affecting on future financial results of the ORLEN Group include:

- macroeconomic and geopolitical environment - crude oil and other energy resources prices, quotations on refinery and petrochemical products, foreign exchange rates (mainly EUR/USD, PLN/USD, PLN/EUR) and the tariff war between the US and China as well as the US conflict with Iran,
- economic situation - GDP level, fuel and other products of the Group consumption on the markets of its operations and the situation on the labour market,
- availability of production instances,
- applicable legal regulations.

## 3.2. Organization of the ORLEN Group

The ORLEN Group includes PKN ORLEN as the Parent Company and entities located in Poland, Germany, Czech Republic, Lithuania, Malta, Sweden, the Netherlands, Slovakia, Hungary, Estonia, Latvia and the USA and Canada.

PKN ORLEN as the Parent Company is a multi-segment entity, appropriately allocated to all operating segments and corporate functions.



## 3.3. Changes in the structure of the ORLEN Group from 1 January 2019 up to the date of preparation of this report

- On 15 January 2019, the transformation of Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o. to Platinum Oil Wielkopolskie Centrum Dystrybucji S.A. took place. ORLEN OIL Sp. z o.o. holds 100% of the share capital of Platinum Oil Wielkopolskie Centrum Dystrybucji S.A.;
- On 23 January 2019 the founding act of ORLEN Usługi Finansowe Sp. z o.o. was signed. On 9 May 2019 the company was registered.
- On 1 February 2019 an entry into the merger register of ORLEN Poludnie SA and Euronaft Trzebinia Sp. z o.o. was made, by transferring all assets of Euronaft Trzebinia Sp. z o.o. as the Acquired Company, to ORLEN Poludnie S.A. as the Acquiring Company.
- On 1 March 2019 the transformation of ORLEN KolTrans Sp. z o.o. from a limited liability company into a joint-stock company, i.e. into ORLEN KolTrans SA took place.
- On 9 May 2019 the transformation of UAB Mazeikiu naftos prekybos namai from a limited liability company into a joint-stock company took place, i.e. from UAB Mazeikiu naftos prekybos namai into AB Mazeikiu naftos prekybos namai.

- On 3 June 2019 the transfer of UAB EMAS ownership from the ORLEN Lietuva Group to the ORLEN Serwis Group took place as a result of the purchase of all of the company's shares by ORLEN Serwis SA. from AB ORLEN Lietuva. As a result of the transaction ORLEN Serwis S.A. is the sole owner of UAB EMAS (100% share in the share capital).
- On 13 June 2019 PKN ORLEN filed a surcharge to the capital of ORLEN Capital in the total amount of PLN 213 million (representing EUR 50 million).
- On 28 June 2019 the Extraordinary General Meeting of Shareholders of Baltic Power sp. o.o. adopted a resolution regarding the increase of the company's share capital. Share capital of Baltic Power sp. z o.o. increased by PLN 100,000 by creating 1,000 new and indivisible shares with a nominal value of PLN 100 each, which were fully subscribed by the existing sole shareholder of the company, ie. PKN ORLEN, in exchange for a cash contribution of PLN 52.4 million. Surplus of cash contribution over total nominal value of the newly issued shares will increase the company's reserve capital. The cash contribution was made on 1 July 2019. Share capital increase to the amount of PLN 600 000 will take place at the moment of entry into the Register.
- On 3 July 2019 the share of ORLEN Upstream Canada Ltd. in the capital of Pieridae Energy Limited (Federal) decreased from 4.38% to 4.25% as a result of issue of new shares.
- On 5 and 23 September 2019 PKN ORLEN filed a surcharge to the capital of ORLEN Upstream in the total amount of PLN 75 million.
- On 3 October 2019 PKN ORLEN purchased from Powszechny Zakład Ubezpieczeń S.A. 6,600 ordinary name shares of A series of Sigma BIS S.A. representing 66% of share capital of Sigma BIS S.A. and the Extraordinary General Meeting of Sigma BIS S.A. adopted a resolution regarding the increase of the company's share capital by PLN 3,000,000 by issuing 300,000 new registered shares with a nominal value of PLN 10 PKN ORLEN acquired 198,000 ordinary new issue shares of SIGMA BIS S.A. which together with the purchased shares will constitute 66% of the increased share capital of the company. The company is awaiting the registration of PKN ORLEN entry as a shareholder and the increase of the share capital by the National Court Register.
- On 16 October 2019, the name of Akcinė bendrovė "Ventus Nafta" from ORLEN Group was changed to Akcinė bendrovė ORLEN Baltics Retail. The change of company name was registered in the Lithuanian company register on 16 October 2019.

Changes in the Group structure are an element of the ORLEN Group strategy, assuming a focus on core activities and allocating capital for the development of the Group in the most prospective areas.

#### 4. Segment's data

The operations of the ORLEN Group are conducted in:

- the Downstream segment, which includes integrated areas of refining, petrochemical production and sales and operations in the area of energy production,
  - the Retail segment, which includes activity carried out at petrol stations,
  - the Upstream segment, which includes activity related to exploration and extraction of mineral resources,
- and Corporate Functions, which include activities related to management, administration and remaining activities not allocated to separate operating segments i.e. reconciling items.

The allocation of the ORLEN Group's companies to operating segments and Corporate Functions was presented in note [3.2](#).

#### Revenues, costs, financial results, increases in non-current assets

for the 9-month period ended 30 September 2019

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	54 093	29 115	438	57	-	83 703
Inter-segment revenues		14 147	172	-	319	(14 638)	-
Sales revenues		68 240	29 287	438	376	(14 638)	83 703
Operating expenses		(64 651)	(27 275)	(439)	(1 069)	14 638	(78 796)
Other operating income	5.4	551	62	30	20	-	663
Other operating expenses	5.4	(539)	(79)	(67)	(65)	-	(750)
(Loss)/reversal of loss due to impairment of financial instruments		(9)	(6)	-	(33)	-	(48)
Share in profit from investments accounted for using the equity method		117	-	-	-	-	117
<b>Profit/(Loss) from operations</b>		<b>3 709</b>	<b>1 989</b>	<b>(38)</b>	<b>(771)</b>	<b>-</b>	<b>4 889</b>
Net finance income and costs	5.5						(204)
(Loss)/reversal of loss due to impairment of financial instruments							(1)
<b>Profit before tax</b>							<b>4 684</b>
Tax expense							(968)
<b>Net profit</b>							<b>3 716</b>
<b>Depreciation and amortisation</b>	5.2	<b>1 755</b>	<b>468</b>	<b>236</b>	<b>113</b>	<b>-</b>	<b>2 572</b>
<b>EBITDA</b>		<b>5 464</b>	<b>2 457</b>	<b>198</b>	<b>(658)</b>	<b>-</b>	<b>7 461</b>
<b>Increases in non-current assets, incl.:</b>		<b>2 738</b>	<b>2 707</b>	<b>406</b>	<b>527</b>	<b>-</b>	<b>6 378</b>
impact of IFRS 16 adoption		1 047	1 974	3	292	-	3 316



**for the 3-month period ended 30 September 2019**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	18 694	10 382	134	19	-	29 229
Inter-segment revenues		5 102	9	-	107	(5 218)	-
Sales revenues		23 796	10 391	134	126	(5 218)	29 229
Operating expenses		(22 322)	(9 612)	(163)	(375)	5 218	(27 254)
Other operating income	5.4	230	7	14	9	-	260
Other operating expenses	5.4	(332)	(18)	(62)	(28)	-	(440)
(Loss)/reversal of loss due to impairment of financial instruments		(3)	(2)	-	(18)	-	(23)
Share in profit from investments accounted for using the equity method		35	-	-	-	-	35
<b>Profit/(Loss) from operations</b>		<b>1 404</b>	<b>766</b>	<b>(77)</b>	<b>(286)</b>	<b>-</b>	<b>1 807</b>
Net finance income and costs	5.5						(240)
(Loss)/reversal of loss due to impairment of financial instruments							-
<b>Profit before tax</b>							<b>1 567</b>
Tax expense							(301)
<b>Net profit</b>							<b>1 266</b>
<b>Depreciation and amortisation</b>	5.2	<b>595</b>	<b>158</b>	<b>100</b>	<b>40</b>	<b>-</b>	<b>893</b>
<b>EBITDA</b>		<b>1 999</b>	<b>924</b>	<b>23</b>	<b>(246)</b>	<b>-</b>	<b>2 700</b>
<b>Increases in non-current assets</b>		<b>673</b>	<b>358</b>	<b>136</b>	<b>152</b>	<b>-</b>	<b>1 319</b>

**for the 9-month period ended 30 September 2018**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	52 372	27 386	464	64	-	80 286
Inter-segment revenues		13 260	126	-	322	(13 708)	-
Sales revenues		65 632	27 512	464	386	(13 708)	80 286
Operating expenses		(61 107)	(25 983)	(418)	(947)	13 708	(74 747)
Other operating income	5.4	849	56	3	57	-	965
Other operating expenses	5.4	(309)	(66)	(62)	(108)	-	(545)
(Loss)/reversal of loss due to impairment of financial instruments		12	(2)	-	(4)	-	6
Share in profit from investments accounted for using the equity method		114	-	-	-	-	114
<b>Profit/(Loss) from operations</b>		<b>5 191</b>	<b>1 517</b>	<b>(13)</b>	<b>(616)</b>	<b>-</b>	<b>6 079</b>
Net finance income and costs	5.5						(53)
(Loss)/reversal of loss due to impairment of financial instruments							(1)
<b>Profit before tax</b>							<b>6 025</b>
Tax expense							(1 133)
<b>Net profit</b>							<b>4 892</b>
<b>Depreciation and amortisation</b>	5.2	<b>1 315</b>	<b>343</b>	<b>237</b>	<b>81</b>	<b>-</b>	<b>1 976</b>
<b>EBITDA</b>		<b>6 506</b>	<b>1 860</b>	<b>224</b>	<b>(535)</b>	<b>-</b>	<b>8 055</b>
<b>Increases in non-current assets</b>		<b>1 741</b>	<b>479</b>	<b>553</b>	<b>126</b>	<b>-</b>	<b>2 899</b>

for the 3-month period ended 30 September 2018

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	19 889	10 276	154	25	-	30 344
Inter-segment revenues		5 125	9	-	108	(5 242)	-
Sales revenues		25 014	10 285	154	133	(5 242)	30 344
Operating expenses		(23 194)	(9 680)	(145)	(325)	5 242	(28 102)
Other operating income	5.4	113	19	-	23	-	155
Other operating expenses	5.4	(78)	(26)	(3)	(30)	-	(137)
(Loss)/reversal of loss due to impairment of financial instruments		6	(1)	-	-	-	5
Share in profit from investments accounted for using the equity method		26	-	-	-	-	26
<b>Profit/(Loss) from operations</b>		<b>1 887</b>	<b>597</b>	<b>6</b>	<b>(199)</b>	<b>-</b>	<b>2 291</b>
Net finance income and costs	5.5						257
<b>Profit before tax</b>							<b>2 548</b>
Tax expense							(473)
<b>Net profit</b>							<b>2 075</b>
<b>Depreciation and amortisation</b>	5.2	<b>452</b>	<b>115</b>	<b>80</b>	<b>30</b>	<b>-</b>	<b>677</b>
<b>EBITDA</b>		<b>2 339</b>	<b>712</b>	<b>86</b>	<b>(169)</b>	<b>-</b>	<b>2 968</b>
<b>Increases in non-current assets</b>		<b>626</b>	<b>192</b>	<b>172</b>	<b>37</b>	<b>-</b>	<b>1 027</b>

*EBITDA – profit/(loss) from operations increased by depreciation and amortisation*

*Increase in non-current assets includes increase of property, plant and equipment, intangible assets, investment property and right-of-use asset together with the capitalisation of borrowing costs and a decrease in received/due penalties for the improper execution of a contract.*

### Assets by operating segments

	30/09/2019 (unaudited)	31/12/2018
Downstream Segment	47 848	46 129
Retail Segment	9 627	6 974
Upstream Segment	4 455	4 175
<b>Segment assets</b>	<b>61 930</b>	<b>57 278</b>
Corporate Functions	9 679	6 914
Adjustments	(58)	(51)
	<b>71 551</b>	<b>64 141</b>

## 5. Other notes

### 5.1. Sales revenues

#### PROFESSIONAL JUDGMENT

Based on analyses of contractual clauses in sales contracts, the Group identified the agency model mainly in the area of LPG sales, natural gas sales and non-fuel merchandise sales by ORLEN Deutschland to customers network. In other transactions the Group acts as a principal.

The Group has a VITAY loyalty program for retail clients. The loyalty program VITAY liability, arises at the time of sales of goods and services at own and franchise petrol stations for each single sale transaction and in case of purchase by the Group's customers in partner's e-Shops and consists in calculating points entitling to discounts on future purchases. A ratio of 68.5% is adopted to recognise liability taking into account the possibility of its on realisation, based on empirical data of points used compared to those issued to the customer in the last 36 months. The Group assessed, which marketing services provided to suppliers are inseparably linked to the purchase of these merchandise, hence revenues from service reduce costs related to their purchase and release for sale.

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Revenues from sales of finished goods and services, net	70 154	24 566	66 431	25 509
revenue from contracts with customers	69 843	24 373	66 262	25 446
excluded from scope of IFRS 15	311	193	169	63
Revenues from sales of merchandise and raw materials, net	13 549	4 663	13 855	4 835
revenue from contracts with customers	13 522	4 636	13 855	4 835
excluded from scope of IFRS 15	27	27	-	-
<b>Sales revenues, incl.:</b>	<b>83 703</b>	<b>29 229</b>	<b>80 286</b>	<b>30 344</b>
revenue from contracts with customers	83 365	29 009	80 117	30 281

Contracts excluded from the scope of IFRS 15 refer to operating lease contracts and compensation for energy prices

**Performance obligations**

As part of the contractual obligations, the Group commits to supply mostly refining, petrochemical products and goods, energy, crude oil and gas to its customers. Under these agreements the Group acts as a principal. In existing contracts with customers transaction prices are not restricted.

There are no significant contracts in force in the Group, which allow for obligations to accept returns, pay reimbursements or other similar obligations. There is no significant financing component in contracts with customers. The Group does not identify revenues for which the payment of consideration is contingent.

The guarantees provided under the contracts provide assurance to the customer that the product meets the required specification. They do not rely on the performance of distinct service.

In the Downstream segment deferred payment sales are the norm. In the Retail segment there are both cash sales with the possibility of deferred payments through use of fuel cards entitling customers to the ongoing purchase of fuel in the petrol station network. The settlements with customer takes place in two-week periods (so-called Fleet Cards).

Payment usually becomes due after goods or services have been transferred. In contracts with Downstream and Retail segments' customers, payment dates not exceeding 30 days are used in most cases, whereas in the Upstream segment not exceeding 60 days.

**Revenues according to categories taking into account significant economic factors affecting their recognition**

Except of revenues according to product type and geographical region presented in notes [5.1.1](#) and [5.1.2](#), the Group analyses revenues based on the type of contract, date of transfer, contract duration and sales channels.

Revenues based on a fixed price constitute the majority of revenues in the Group. The customer has the right to discounts, penalties, which in accordance with IFRS 15 constitute an element of variable consideration. The Group recognises revenues in the amount of consideration, to which – in line with expectations- it will be entitled and which will not be reversed in the future. Consequently, the Group adjusts revenues for highly probable discounts and penalties, which recognition are highly probable. The variability of consideration in contracts with customers is largely due to volume rebates. The Group also defers the part of revenue related to the VITAY loyalty program, according to which the customer is entitled to future benefits (i.e. VITAY points).

The transfer of control as the moment of revenue recognition under IFRS 15 is a broader concept than the transfer of risks and rewards. As part of the Downstream segment, in the scope of sales of petrochemical and refinery products, the Group recognises revenue from satisfaction of performance obligation, depending on the terms of delivery (Incoterms) used. In the case of some deliveries the Group is obliged to organize transport and/or insurance. When the control of good passes to the customer before transport is performed, the delivery of goods and transport (and possibly insurance) become separate performance obligations. The delivery of goods is an obligation satisfied at a point in time, while transport is a continuous obligation (satisfied over time). In the case of transport and insurance, the customer simultaneously receives benefits from the service.

In the Retail segment, the moment of satisfied a performance obligation is the moment of transfer of good, excluding sales of fuels using Fleet Cards.

In the case of sales transferred over time the Group recognises revenues at least on a monthly basis, where settlements between parties to the contract take place periodically and reflect the amount of remuneration owing to the Group for the provision of products and services to the customer. Within the Downstream segment revenues mainly relate to the sale of energy and heat, the sale of fuels using Fleet cards within Retail segment and the sale of gas and crude oil within the Upstream segment.

The majority of contracts within the group are short-term. Revenues on services for which start and end dates fall in different reporting periods (long-term contracts) are recognised according to the stage of their completion, if the result of the transaction can be reliably estimated. Long-term contracts that remain unfulfilled in full as at the balance sheet date relate to construction and assembly contracts and energy sales.

The Group sells directly to end customers in the Retail segment, managing a network of close to 2,807 fuel stations, including 2,266 own brand stations and a further 541 stations operated under franchise agreements.

Group sales to customers in the Downstream segment are carried out using a network of complementary infrastructure components - fuel terminals, land transshipment bases, pipeline networks, as well as rail transport and tanker trucks.

**5.1.1. Sales revenues of operating segments according to product type**

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
<b>Downstream Segment</b>				
<b>Revenue from contracts with customers IFRS 15</b>	<b>53 928</b>	<b>18 579</b>	<b>52 299</b>	<b>19 860</b>
Light distillates	8 984	3 092	9 534	3 786
Medium distillates	26 719	9 494	25 030	9 693
Heavy fractions	5 031	1 786	5 180	2 050
Monomers	2 788	919	2 632	918
Polymers	1 915	602	2 103	685
Aromas	848	298	895	284
Fertilizers	681	226	609	230
Plastics	1 056	319	1 146	363
PTA	1 469	474	1 189	387
Other*	4 437	1 369	3 981	1 464
<b>Excluded from scope of IFRS 15</b>	<b>165</b>	<b>115</b>	<b>73</b>	<b>29</b>
	<b>54 093</b>	<b>18 694</b>	<b>52 372</b>	<b>19 889</b>
<b>Retail Segment</b>				
<b>Revenue from contracts with customers IFRS 15</b>	<b>28 958</b>	<b>10 282</b>	<b>27 305</b>	<b>10 247</b>
Light distillates	11 043	3 953	10 513	3 985
Medium distillates	15 233	5 385	14 493	5 415
Other **	2 682	944	2 299	847
<b>Excluded from scope of IFRS 15</b>	<b>157</b>	<b>100</b>	<b>81</b>	<b>29</b>
	<b>29 115</b>	<b>10 382</b>	<b>27 386</b>	<b>10 276</b>
<b>Upstream Segment</b>				
<b>Revenue from contracts with customers IFRS 15</b>	<b>438</b>	<b>134</b>	<b>464</b>	<b>154</b>
NGL ***	240	74	261	87
Crude oil	80	29	77	27
Natural Gas	115	30	122	39
Other	3	1	4	1
	<b>438</b>	<b>134</b>	<b>464</b>	<b>154</b>
<b>Corporate Functions</b>				
<b>Revenue from contracts with customers IFRS 15</b>	<b>41</b>	<b>14</b>	<b>49</b>	<b>20</b>
<b>Excluded from scope of IFRS 15</b>	<b>16</b>	<b>5</b>	<b>15</b>	<b>5</b>
	<b>57</b>	<b>19</b>	<b>64</b>	<b>25</b>
	<b>83 703</b>	<b>29 229</b>	<b>80 286</b>	<b>30 344</b>

\* Others include mainly: brine, industrial salt, vacuum distillates, acetone, ammonia, butadiene, phenol, technical gases, caprolactam, soda lye and sulphur. In addition, they include revenues from sale of services and materials.

\*\* The line Other in the retail segment mainly includes the sale of non-fuel merchandise

\*\*\* NGL (Natural Gas Liquids)

In the 9 and 3-month periods ended 30 September 2019 and 30 September 2018 no leading Group customers for which revenue would individually exceed 10% of the total sales revenues of the ORLEN Group were identified.

**5.1.2. Sales revenues according to geographical region – as per location of customer's headquarters**

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
<b>Revenue from contracts with customers</b>				
Poland	38 587	12 397	36 316	12 767
Germany	12 281	4 132	12 418	4 450
Czech Republic	11 225	3 991	10 225	4 018
Lithuania, Latvia, Estonia	8 914	4 381	8 362	4 318
Other countries	12 358	4 108	12 796	4 728
	<b>83 365</b>	<b>29 009</b>	<b>80 117</b>	<b>30 281</b>
<b>excluded from scope of IFRS 15</b>				
Poland	179	117	90	34
Germany	68	68	-	-
Czech Republic	90	35	78	29
Lithuania, Latvia, Estonia	1	-	1	-
	<b>338</b>	<b>220</b>	<b>169</b>	<b>63</b>
	<b>83 703</b>	<b>29 229</b>	<b>80 286</b>	<b>30 344</b>

The line other countries comprises mainly sales to customers from Switzerland, Singapore, Ukraine, Slovakia, the United Kingdom and Hungary.

## 5.2. Operating expenses

### Cost by nature

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Materials and energy	(56 879)	(19 645)	(54 953)	(21 285)
Cost of merchandise and raw materials sold	(11 930)	(4 132)	(12 319)	(4 231)
External services	(3 256)	(1 152)	(3 349)	(1 188)
Employee benefits	(2 146)	(688)	(1 947)	(636)
Depreciation and amortisation	(2 572)	(893)	(1 976)	(677)
Taxes and charges	(1 999)	(643)	(1 093)	(390)
Other	(477)	(191)	(365)	(142)
	<b>(79 259)</b>	<b>(27 344)</b>	<b>(76 002)</b>	<b>(28 549)</b>
Change in inventories	347	34	1 093	428
Cost of products and services for own use	116	56	162	19
<b>Operating expenses</b>	<b>(78 796)</b>	<b>(27 254)</b>	<b>(74 747)</b>	<b>(28 102)</b>
Distribution expenses	4 648	1 637	3 498	1 223
Administrative expenses	1 295	425	1 149	384
<b>Cost of sales</b>	<b>(72 853)</b>	<b>(25 192)</b>	<b>(70 100)</b>	<b>(26 495)</b>

In the 9 and 3-months ended 30 September 2019, the position of taxes and charges includes the value of the emission charge effective from 1 January 2019 in the amount of PLN (903) million and PLN (317) million, respectively.

## 5.3. Impairment allowances of inventories to net realizable value

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Increase	(149)	(63)	(41)	(6)
Decrease	310	106	46	8

In the 9 and 3-month period ended 30 September 2019 the line decrease includes reversal and usage of inventory impairment allowances to net realizable value made mainly in the 4<sup>th</sup> quarter of 2018 due to a decrease in crude oil and petroleum product prices.

## 5.4. Other operating income and expenses

### Other operating income

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Profit on sale of non-current non-financial assets	15	1	14	7
Reversal of provisions	17	9	17	12
Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	39	4	34	14
Penalties and compensations	37	4	496	8
Settlement and valuation of derivative financial instruments related to operating exposure	221	84	167	39
Ineffective part related to valuation and settlement of operating exposure	143	86	76	20
Settlement of hedging costs	115	43	13	9
Other, incl.:	76	29	148	46
<i>received/due energy certificates</i>	22	8	104	42
	<b>663</b>	<b>260</b>	<b>965</b>	<b>155</b>

On 13 August 2015 the steam cracker unit accident in Unipetrol Group took place. As a result of arrangements with insurers, the final amount of compensation was determined to cover reconstruction costs of installations and lost business profits, therefore during the 9-month period ended 30 September 2018 the Group recognized in the line penalties and compensation the amount PLN 264 million. The inflow of cash from this title occurred in the 3<sup>rd</sup> quarter of 2018.

The line penalties and compensation in the 9-month period ended 30 September 2018 includes additionally penalties for delayed execution of the contract of the power plant CCGT in Plock in the amount of PLN 190 million, received in 1<sup>st</sup> and 3<sup>rd</sup> quarter of 2018.

**Other operating expenses**

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Loss on sale of non-current non-financial assets	(42)	(16)	(26)	(4)
Recognition of provisions	(27)	(1)	(11)	(3)
Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	(139)	(77)	(63)	(30)
Penalties, damages and compensations	(14)	(6)	(13)	(4)
Settlement and valuation of derivative financial instruments related to operating exposure	(341)	(254)	(198)	(41)
Ineffective part related to valuation and settlement of operating exposure	(87)	(37)	(103)	(21)
Other, incl.:	(100)	(49)	(131)	(34)
<i>donations</i>	(53)	(30)	(36)	(18)
	<b>(750)</b>	<b>(440)</b>	<b>(545)</b>	<b>(137)</b>

For the 9 and 3-month periods ended 30 September 2019 and 30 September 2018 the net positions of valuation and settlement of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) amounted to PLN (120) million, PLN (170) million and PLN (31) million, PLN (2) million respectively, and mainly related to commodity swaps hedging time mismatch on crude oil purchases concluded in the 2<sup>nd</sup> and 3<sup>rd</sup> quarter of 2019 and bitumen hedging.

The change in valuation and settlement of derivative financial instruments in the 9 and 3-month period ended 30 September 2019 was affected by the prices of crude oil and refinery products as well as exchange rates.

In the 9 and 3-month period ended 30 September 2019 and 30 September 2018 the net positions of ineffective part relating to operating exposure amounted to PLN 56 million, PLN 49 million and PLN (27) million, PLN (1) million, respectively and mainly related to commodity swaps hedging sales of refining products and hedging future sales of products by fixed price and currency forwards hedging sales of goods denominated/ indexed in foreign currencies.

The impairment allowances of property, plant and equipment and intangible assets in the 9 and 3-month period ended 30 September 2019 included mainly impairment of upstream assets as a result of updating gas prices compared to the assumptions from the end of 2018 of the ORLEN Upstream Group in Poland in the amount of PLN 62 million.

**5.5. Finance income and costs**
**Finance income**

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Interest calculated using the effective interest rate method	37	11	26	9
Net foreign exchange gain	-	-	-	147
Dividends	5	-	4	-
Settlement and valuation of derivative financial instruments	603	226	1 069	223
Other	27	8	70	12
	<b>672</b>	<b>245</b>	<b>1 169</b>	<b>391</b>

**Finance costs**

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Interest calculated using the effective interest rate method	(148)	(51)	(142)	(48)
Interest on lease	(55)	(16)	(7)	(3)
Interest on tax liabilities	(3)	-	(2)	(1)
Net foreign exchange loss	(228)	(284)	(196)	-
Settlement and valuation of derivative financial instruments	(395)	(118)	(795)	(65)
Other	(47)	(16)	(80)	(17)
	<b>(876)</b>	<b>(485)</b>	<b>(1 222)</b>	<b>(134)</b>

In the 9 and 3-month periods ended 30 September 2019 and 30 September 2018 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes) amounted to PLN 208 million, PLN 108 million and PLN 274 million, PLN 158 million, respectively and related mainly to hedging the risk of changes in exchange rates with regard to deposits and payments in foreign currency and to hedging interest rates and payment of bonds interests.

The main impact on the change in valuation and settlement of derivative financial instruments in the 9 and 3-month period ended 30 September 2019 was affected by exchange rates (the difference between the exchange rate as at the transaction date and the exchange rate as at the transaction settlement date or transaction valuation) and interest rates on financial markets.

Borrowing costs capitalized in the 9 and 3-month periods ended 30 September 2019 and 30 September 2018 amounted to PLN (20) million and PLN (3) million, PLN (29) million and PLN (8) million, respectively.

## 5.6. Loans and bonds

	Non-current		Current		Total	
	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018
Loans	1 936	2 151	261	112	2 197	2 263
Bonds	6 445	6 447	140	1 081	6 585	7 528
	<b>8 381</b>	<b>8 598</b>	<b>401</b>	<b>1 193</b>	<b>8 782</b>	<b>9 791</b>

As at 30 September 2019, indebtedness mainly due to loans relates to a loan reimbursed by PKN ORLEN from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014 in the amount PLN 2,187million translated using the exchange rate as at 30 September 2019 (which corresponds to EUR 500 million).

Detailed information on issue/redemption of bonds are presented in note [5.12](#).

As at 30 September 2019 and as at 31 December 2018 the maximum possible indebtedness due to loans amounted to PLN 9,827million and PLN 10,025 million, respectively. As at 30 September 2019 and as at 31 December 2018 PLN 7,568 million and PLN 7,181 million, respectively, remained unused.

In the period covered by this interim condensed consolidated financial statements, as well as after the reporting date, there were no instances of principal or interest non repayment or loan covenant violations.

## 5.7. Derivatives and other assets and liabilities

### Derivatives and other assets

	Non-current		Current		Total	
	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018
Cash flow hedging instruments	50	143	290	483	340	626
<i>currency forwards</i>	50	143	114	209	164	352
<i>commodity swaps</i>	-	-	176	274	176	274
Derivatives not designated as hedge accounting	1	16	82	39	83	55
<i>currency forwards</i>	-	-	40	5	40	5
<i>commodity swaps</i>	-	-	42	34	42	34
<i>currency interest rate swaps</i>	1	11	-	-	1	11
<i>interest rate swaps</i>	-	5	-	-	-	5
Fair value hedging instruments	1	2	2	2	3	4
<i>commodity swaps</i>	1	2	2	2	3	4
<b>Derivatives</b>	<b>52</b>	<b>161</b>	<b>374</b>	<b>524</b>	<b>426</b>	<b>685</b>
Other financial assets	82	95	274	336	356	431
<i>receivables on settled derivatives</i>	-	-	80	306	80	306
<i>financial assets measured at fair value through other comprehensive income</i>	68	86	-	-	68	86
<i>hedged item adjustment</i>	9	4	7	21	16	25
<i>other</i>	5	5	187	9	192	14
Other non-financial assets	119	243	-	-	119	243
<i>investment property *</i>	100	108	-	-	100	108
<i>perpetual usufruct of land</i>	-	115	-	-	-	115
<i>other</i>	19	20	-	-	19	20
<b>Other assets</b>	<b>201</b>	<b>338</b>	<b>274</b>	<b>336</b>	<b>475</b>	<b>674</b>

\* As at 30 September 2019, the line investment property includes right-of-use asset in the amount of PLN 6 million.

**Derivatives and other liabilities**

	Non-current		Current		Total	
	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018
Cash flow hedging instruments	42	-	60	105	102	105
<i>currency forwards</i>	42	-	3	-	45	-
<i>commodity swaps</i>	-	-	57	105	57	105
Derivatives not designated as hedge accounting	8	38	167	66	175	104
<i>currency forwards</i>	-	-	16	18	16	18
<i>commodity swaps</i>	-	-	126	21	126	21
<i>interest rate swaps</i>	-	38	25	-	25	38
<i>currency interest rate swaps</i>	8	-	-	27	8	27
Fair value hedging instruments	8	4	7	22	15	26
<i>commodity swaps</i>	8	4	7	22	15	26
<b>Derivatives</b>	<b>58</b>	<b>42</b>	<b>234</b>	<b>193</b>	<b>292</b>	<b>235</b>
Other financial liabilities	171	357	92	79	263	436
<i>liabilities on settled derivatives</i>	-	-	81	67	81	67
<i>investment liabilities</i>	106	102	-	-	106	102
<i>finance lease</i>	-	193	-	-	-	193
<i>hedged item adjustment</i>	1	3	2	1	3	4
<i>refund liabilities</i>	-	-	9	11	9	11
<i>other</i>	64	59	-	-	64	59
Other non-financial liabilities	9	9	193	11	202	20
<i>deferred income</i>	9	9	193	11	202	20
<b>Other liabilities</b>	<b>180</b>	<b>366</b>	<b>285</b>	<b>90</b>	<b>465</b>	<b>456</b>

**5.8. Provisions**

	Non-current		Current		Total	
	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018
Environmental	795	782	45	64	840	846
Jubilee bonuses and post-employment benefits	231	233	45	56	276	289
CO <sub>2</sub> emissions, energy certificates	-	-	697	784	697	784
Other	39	40	116	115	155	155
	<b>1 065</b>	<b>1 055</b>	<b>903</b>	<b>1 019</b>	<b>1 968</b>	<b>2 074</b>

From 1 January 2019 the Group recognises outgoing of CO<sub>2</sub> emission allowances at weighted average method against FIFO method (First In, First Out) applied until 31 December 2018. The effect of changing the method of outgoing of CO<sub>2</sub> allowances as at 31 December 2018 was immaterial and was recognised in the financial result of the current year and as a change in value of provision for CO<sub>2</sub> emission in the statement of financial position. In the opinion of the Management Board of PKN ORLEN, the change in outgoing method better reflects commercial substance of legal situation and economic conditions in terms of volatility of market prices for CO<sub>2</sub> emission rights.

**5.9. Methods applied in determining fair value (fair value hierarchy)**

As compared to the previous reporting period the Group did not change the valuation methods concerning financial instruments. Methods applied in determining the fair value were described in the Consolidated Financial Statements for 2018 in note 10.3.3. In the item financial assets measured at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included.

**Fair value hierarchy**

	Carrying amount (unaudited)	Fair value (unaudited)	Fair value hierarchy	
			Level 1	Level 2
<b>Financial assets</b>				
Financial assets measured at fair value through other comprehensive income	68	68	28	40
Derivatives	426	426	-	426
	<b>494</b>	<b>494</b>	<b>28</b>	<b>466</b>
<b>Financial liabilities</b>				
Loans	2 197	2 197	-	2 197
Bonds	6 585	6 945	6 945	-
Derivatives	292	292	-	292
	<b>9 074</b>	<b>9 434</b>	<b>6 945</b>	<b>2 489</b>

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (i.e. Level 1). In other cases, the fair value is determined based on other input data which are directly or indirectly observable (i.e. Level 2) or unobservable inputs (i.e. Level 3). During the reporting period and comparative period there were no reclassifications in the Group between Level 1 and Level 2 of the fair value hierarchy.



## 5.10. Lease

### 5.10.1. Group as a lessee

#### Change in assets due to right-of-use

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Total
<b>Net carrying amount at 01/01/2019 - Impact of IFRS 16 adoption (unaudited)</b>					
Gross carrying amount	1 544	984	95	697	3 320
Impairment allowances	-	-	(2)	(2)	(4)
	<b>1 544</b>	<b>984</b>	<b>93</b>	<b>695</b>	<b>3 316</b>
<b>increases/(decreases), net</b>					
Depreciation	(39)	(99)	(11)	(236)	(385)
Impairment allowances	(28)	(2)	-	-	(30)
Reclassifications *	133	150	19	49	351
Other **	(23)	276	2	185	440
	<b>1 587</b>	<b>1 309</b>	<b>103</b>	<b>693</b>	<b>3 692</b>
<b>Net carrying amount at 30/09/2019 (unaudited)</b>					
Gross carrying amount	1 682	1 482	126	940	4 230
Accumulated depreciation	(67)	(171)	(21)	(245)	(504)
Impairment allowances	(28)	(2)	(2)	(2)	(34)
	<b>1 587</b>	<b>1 309</b>	<b>103</b>	<b>693</b>	<b>3 692</b>

\* The line reclassification includes: gross values, depreciation of property, plant and equipment and perpetual usufruct of land which were recognised as at 31 December 2018 as finance lease under IFRS 17

\*\* The line other includes mainly increases due to newly concluded contracts, contract modifications and other changes of scope or consideration in the amount of PLN 488 million

#### Amounts from lease contracts recognised in the statement of profit or loss and other comprehensive income

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)
<b>Costs due to:</b>	<b>(136)</b>	<b>(66)</b>
interest on lease	Finance costs (55)	(16)
short-term lease	Cost by nature: External Services (54)	(39)
lease of low-value assets that are not short-term lease	Cost by nature: External Services (2)	(1)
variable lease payments not recognised in valuation of lease liabilities	Cost by nature: External Services (25)	(10)

#### Reconciliation of future minimum lease payments disclosed as at 31 December 2018 with lease liabilities recognised in the statement of financial position as at 1 January 2019

Value of future minimum lease payments under operating lease	5 675
Value of future minimum lease payments under finance lease	286
<b>Contractual lease liabilities as at 31/12/2018</b>	<b>5 961</b>
Discount	(2 380)
<b>Present value of lease liabilities as at 01/01/2019</b>	<b>3 581</b>
Present value of contractual finance lease liabilities as at 31/12/2018	(229)
<b>Value of contractual lease liabilities – impact of IFRS 16 adoption as at 01/01/2019</b>	<b>3 352</b>

\* The weighted average marginal interest rate of the Group as a lessee applied to the lease liabilities recognised in the statement of financial position as at 1 January 2019 amounted to 2.62%

### 5.10.2. Group as a lessor

#### Financial lease

The Group as at the starting date, classifies leases as financial or operating lease.

In order to make the above classification the Group assesses whether the entire risk and benefits resulting from ownership of the underlying asset were transferred to a lessee. If the entire risk and benefits were transferred to lessee, the lease is classified as a financial lease, in the opposite situation - as operating lease.

The Group as a lessor in finance lease, recognised on 1 January 2019, in accordance with IFRS 16 subleasing agreements in the Unipetrol Group for which the value of revenues and lease payments due in the 3<sup>rd</sup> quarter of 2019 was immaterial.

### Operating lease

Assets transferred by the Group to other entities for use under an operating lease agreement are classified in the Group's assets. Lease payments under operating leases are recognised on a straight-line basis over the lease period as revenues from the sale of products and services.

Operating lease mainly concerns properties owned by the Group, covered by the lease agreements.

Revenues from operating lease for the 9 and 3-month period ended 30 September of 2019 amounted to PLN 338 million and PLN 220 million.

### 5.11. Future commitments resulting from signed investment contracts

As at 30 September 2019 and as at 31 December 2018 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 3,199 million and PLN 1,281 million, respectively.

### 5.12. Issue, redemption and repayment of debt securities

In the 9-month period ended 30 September 2019 as part of:

- a) the first public bond issue program, F Series remains open with a nominal value of PLN 100 million;
- b) the second public bond issue program, A-E Series with a total nominal value of PLN 1 billion;
- c) the bond issue program established under the Bond Issue Program Agreement of 27 November 2006 (as amended), PKN ORLEN:
  - redeemed long-term bonds with a nominal value of PLN 1 billion issued in 2012;
  - issued/redeemed short term bonds in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group. These transactions are eliminated at the ORLEN Group level.

### 5.13. Distribution of the profit for 2018

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 14 June 2019 distributed the net profit of PKN ORLEN for 2018 in the amount of PLN 5,434,149,842.17 as follows: the amount of PLN 1,496,981,713.50 was allocated as a dividend payment (PLN 3.5 per 1 share) and the remaining amount of net profit of PLN 3,937,168,128.67 as reserve capital. The dividend date was set at 22 July 2019 and the dividend payment date at 5 August 2019.

### 5.14. Contingent liabilities

Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of administration bodies in which the companies of the ORLEN Group act as the defendant:

#### **I.P.-95 s.r.o. compensation claim against UNIPETROL RPA s.r.o.**

On 23 May 2012, Unipetrol RPA s.r.o. received from the District Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by Unipetrol RPA s.r.o. a motion for bankruptcy of I.P.-95 s.r.o. in November 2009. The total amount of the claim is approximately PLN 303 million, translated using the exchange rate as at 30 September 2019 (representing CZK 1,789 million). Unipetrol RPA s.r.o. is one of eight defendants which the claim was brought against. At the request of the I.P.-95 s.r.o. proceeding is pending concerning the accession to the claim as plaintiff NESTARMO TRADING LIMITED. The court refused the Company permission to enter to the case. In February 2018, the court dismissed in entirety claim ruling in favour of Unipetrol RPA s.r.o. On 3 April 2018, I.P.-95 s.r.o. appealed against the decision of the court of first instance. On 22 May 2018, the District Court in Ostrava obliged I.P. - 95 s.r.o. to pay the appeal fee. On 11 December 2018, the court of second instance dismissed the appeal of I.P.-95 s.r.o. from the judgment of the District Court in Ostrava. The judgment is binding. On 20 March 2019 I.P. - 95 s.r.o. filed a cassation appeal against the judgment of the court of second instance. According to UNIPETROL RPA s.r.o. the claim is without merit.

#### **Claim of Warter Fuels S.A. (before: OBR S.A.) against PKN ORLEN for compensation**

On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filed an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights. The amount of the claim in the lawsuit was estimated by Warter Fuels S.A. in the amount of approximately PLN 84 million. The claim covers the adjudged sum of money from PKN ORLEN for Warter Fuels S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014 PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. So far, several hearings took place (last on 28 September 2018), during which witnesses submitted by the parties were heard by the court. The PKN ORLEN attorney submitted a request to suspend the proceedings due to parallel proceedings for determining the right to the disputed patent, the outcome of which will have significance for the resolution in the case of breach. The request was not considered yet. In the opinion of PKN ORLEN the above claims are without merit.

#### **Polocktransneft Druzhba claim against AB ORLEN Lietuva**

On 21 September 2017, AB ORLEN Lietuva received from the court a claim brought by the Belarusian company Polocktransneft Druzhba (operator of the Belarus section of the Druzhba pipeline) for payment of compensation for crude oil (so-called 'technological oil') which from 1992 was located in Lithuanian section of the Druzhba pipeline and used by ORLEN Lietuva after operation of this section was stopped in 2006. Polocktransneft Druzhba believes that this oil was its property. The value of the claim is approximately PLN 336 million, translated using the exchange rate as at 30 September 2019 (representing USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. On 15 March 2018 a hearing took place. On 29 March 2018, the court dismissed the plaintiff's claim. Polocktransneft Druzhba appealed against the judgment dismissing the claim. ORLEN Lietuva responded to the appeal. The hearing took place on 6 May 2019. The witness, the former chief representative of the Druzhba Polocktransneft in Lithuania, was heard. On 4 September 2019, another hearing was held, at which the Court decided several procedural issues, including admitted evidence from expert opinions appointed by the parties, refused to attach to the case documents from other criminal cases requested by Polocktransneft Druzhba.

The court appealed the plaintiff and the defendant to submit documents and information to the case file by 22 October 2019. The court decided to postpone the hearing until 6 November 2019. According to ORLEN Lietuva, the above claim is without merit.

#### UAB Baltpool claim against ORLEN Lietuva

In May 2019, UAB Baltpool (an entity administering the funds and responsible for collecting fees for so-called Public Service Obligation in Lithuania) filed a claim against ORLEN Lietuva for payment of system fees (so-called PSO fees) related to electricity consumption for the period from February 2013 to March 2019 (excluding May 2017). The claim relates to unpaid by ORLEN Lietuva system fees on the amount of electricity generated and consumed by ORLEN Lietuva for own needs. ORLEN Lietuva believes, that such system fees (self-producer fees) are not due. The value of the dispute together with interest was included in the books of ORLEN Lietuva and amounted to PLN 66.5 million, translated using the exchange rate as at 30 September 2019 (representing EUR 15.2 million).

The case is connected with 7 administrative cases brought by ORLEN Lietuva (since 2013), in which ORLEN Lietuva challenge the legality of charging PSO on electricity generated and consumed for own needs. All these administrative cases are suspended in connection with proceedings pending before the Court of Justice of the EU. The outcome of the case brought by UAB Baltpool depends on a large extent on the outcome of these administrative proceedings and proceedings before the Court of Justice of the EU. The Court of Justice of the EU decided, that the Lithuanian PSO program constitutes the nature of state aid. In the opinion of the ORLEN Lietuva the claims are without merit.

Except of described above proceedings, the Group has not identified any other significant contingent liabilities.

### 5.15. Related parties transactions

#### 5.15.1. Transactions of the key executive personnel and their relatives with related parties of the ORLEN Group

As at 30 September 2019 and as at 31 December 2018 and in the 9 and 3-month periods ended 30 September 2019 and 30 September 2018, on the basis of submitted declarations, there were no transactions of related parties of ORLEN Group with Members of the Management Board and the Supervisory Board of the Parent Company.

In the 9 and 3-month period ended 30 September 2019 on the basis of submitted declarations there were no transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties.

In the 9 and 3-month period ended 30 September 2018 on the basis of submitted declarations, there were transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties in the amount of PLN 0.3 million and PLN 0.1 million, respectively; included the main amounts regarded purchase of legal services and tax consultancy.

As at 30 September 2019 there were no trade and other liabilities due to the above transactions and as at 31 December 2018 balance of liabilities was not significant.

#### 5.15.2. Remuneration of key executive personnel of the Parent Company and ORLEN Group companies

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
<b>Parent Company</b>				
Short-term employee benefits	31.7	10.8	29.9	9.5
Termination benefits	1.9	0.2	9.1	1.5
<b>Subsidiaries</b>				
Short-term employee benefits	110.5	41.2	102.2	32.1
Post-employment benefits	-	-	0.2	0.1
Other long term employee benefits	0.7	0.1	0.1	0.1
Termination benefits	6.5	1.9	6.3	2.7
	<b>151.3</b>	<b>54.2</b>	<b>147.8</b>	<b>46.0</b>

The above table presents remuneration paid and due or potentially due to the key management personnel of the Parent Company and subsidiaries in the reporting period.

#### 5.15.3. ORLEN Group companies' transactions and balances of settlements with related parties

	Sales				Purchases			
	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Jointly-controlled entities	2 387	766	2 370	836	(107)	(34)	(105)	(33)
<i>joint ventures</i>	2 278	733	2 250	803	(40)	(13)	(34)	(13)
<i>joint operations</i>	109	33	120	33	(67)	(21)	(71)	(20)
	<b>2 387</b>	<b>766</b>	<b>2 370</b>	<b>836</b>	<b>(107)</b>	<b>(34)</b>	<b>(105)</b>	<b>(33)</b>

	Trade and other receivables		Trade and other liabilities	
	30/09/2019 (unaudited)	31/12/2018	30/09/2019 (unaudited)	31/12/2018
Jointly-controlled entities	<b>575</b>	<b>614</b>	<b>20</b>	<b>16</b>
<i>joint ventures</i>	557	593	11	5
<i>joint operations</i>	18	21	9	11
	<b>575</b>	<b>614</b>	<b>20</b>	<b>16</b>

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services. In the 9 and 3-month period ended 30 September 2019 and 30 September 2018 there were no related parties transactions within the Group concluded on other than an arm's length basis.

#### 5.15.4. Transactions with entities related to the State Treasury

As at 30 September 2019 and 31 December 2018, the State Treasury owns 27.52% of the Parent Company's shares - PKN ORLEN and has ability to exert a significant influence on it.

The Group identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation of 3 January 2017 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities" with subsequent updates.

In the 9 and 3-month periods ended 30 September 2019 and 30 September 2018 and as at 30 September 2019 and 31 December 2018, the Group identified the following transactions:

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Sales	1 483	557	1 498	556
Purchases	(3 214)	(995)	(3 922)	(1 477)

	30/09/2019 (unaudited)	31/12/2018
Trade and other receivables	349	230
Trade and other liabilities	380	189

Above transactions were concluded on an arm's length basis, were related to the ORLEN Group current operating activities and concerned mainly fuel sales, purchase and sales of natural gas, energy, transport and storage services.

Additionally, there were also financial transactions (bank fees, commission) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego.

#### 5.16. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 September 2019 and as at 31 December 2018 amounted to PLN 2,444 million and PLN 2,626 million, respectively.

#### 5.17. Events after the end of the reporting period

After the end of the reporting period there were no events required to be included in this interim condensed consolidated financial statements.

OTHER INFORMATION TO CONSOLIDATED QUARTERLY  
REPORT

FOR THE 9 AND 3-MONTH PERIOD ENDED 30 SEPTEMBER

2019

**B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT****1. Major factors having impact on EBITDA and EBITDA LIFO****Profit or loss for the 9 months of 2019**

Profit from operations increased by depreciation and amortisation (so-called EBITDA) amounted to PLN 7,461 million and was lower by PLN (594) million (y/y).

The ORLEN Group measures inventories in the financial statements in accordance with International Financial Reporting Standards using the weighted average cost or purchase price method. Therefore, an increase in crude oil prices (by weighted average cost in comparison to the valuation of crude oil according to LIFO method) has a positive or negative impact on the reported results.

The negative impact of changes in crude oil prices on inventory valuation recognised in EBITDA profit was lower by PLN (2,011) million (y/y) and amounted to PLN (352) million.

As a result, profit from operations increased by depreciation and amortisation before consideration of impact of changes in crude oil prices on inventory valuation (so-called EBITDA LIFO) amounted to PLN 7,813 million and was higher by PLN 1,417 million (y/y).

Changes in macroeconomic factors increased the Group's results by PLN 642 million (y/y). The positive impact of improvement in margins on medium distillates, heavy refinery fractions, polyolefins and fertilizers as well as depreciation of the PLN exchange rate against the foreign currencies was compensated by the effect of a lower by (1,1) USD/bbl Ural/Brent differential and lower margins on light distillates, PTA and PVC.

The volume sales increased by 2% (y/y) to 32,420 thousand tons and was higher in all operating segments, which affected the positive volume effect in the amount of PLN 844 million (y/y).

The negative impact of the other factors amounted to PLN (69) million (y/y). It mainly included the negative impact of change in the balance of other operating activities in the amount PLN (507) million (y/y) due to lack of compensation received in 2018 related to the steam cracker unit accident in Unipetrol Group and recognized compensation for improper execution of the contract of the power plant CCGT in Płock and positive effect of higher in wholesale and retail trade margins.

Net impairment allowances of property, plant and equipment and intangible assets amounted to PLN (100) million and included mainly impairment of upstream assets of the ORLEN Upstream Group in Poland as a result of updating prices assumptions.

Before the deduction of impairment allowances of assets EBITDA LIFO profit of ORLEN Group in the described period amounted to PLN 7,913 million and was higher by PLN 1,488 million (y/y).

**Profit or loss for the 3<sup>rd</sup> quarter of 2019**

Profit from operations increased by depreciation and amortisation (so-called EBITDA) amounted to PLN 2,700 million and was lower by PLN (268) million (y/y).

The ORLEN Group measures inventories in the financial statements in accordance with International Financial Reporting Standards using the weighted average cost or purchase price method. Therefore, an increase in crude oil prices (by weighted average cost in comparison to the valuation of crude oil according to LIFO method) has a positive effect or negative impact on the reported results.

The negative impact of changes in crude oil prices on inventory valuation recognised in EBITDA was lower by PLN (973) million and amounted to PLN (394) million.

As a result, profit from operations increased by depreciation and amortisation before consideration of impact of changes in crude oil prices on inventory valuation (so-called EBITDA LIFO) amounted to PLN 3,094 million and was higher by PLN 705 million (y/y).

Changes in macroeconomic parameters amounted to PLN 574 million (y/y) and included mainly improvement in margins on medium distillates, heavy refinery fractions and fertilizers, lower costs of raw materials used for own energy needs as a result of decrease in crude oil prices by (13) USD/bbl and depreciation of the PLN exchange rate against the foreign currencies. The above positive effects have been partly limited by the impact of a lower by (0.3) USD/bbl Ural/Brent differential and lower margins on light distillates, olefins, polyolefins, PTA and PVC.

The volume sales amounted to 11,431 thousand tons and increased by 3% (y/y) in all operating segments, which affected the positive volume effect in the amount of PLN 319 million (y/y).

The negative impact of the other factors amounted to PLN (188) million (y/y) and related mainly to:

- PLN (198) million (y/y) – the impact of changes in the balance of other operating activities, mainly related to the recognition of settlement and valuation of net derivative financial instruments related to operating exposure and ineffective part related to valuation and settlement of operating exposure - more details of the impact of hedging instruments are described in note [5.4](#).
- PLN (146) million – the impact of revaluation of impairment on inventories (so-called net realisable value) due to decreasing crude oil prices and refinery and petrochemical products quotation.
- PLN 154 million (y/y) - other elements, including mainly positive effect of higher wholesale and retail trade margins with higher general and labor costs.

Net impairment allowances of property, plant and equipment and intangible assets amounted to PLN (73) million and included mainly impairment of upstream assets of the ORLEN Upstream Group in Poland in the amount of PLN 62 million as a result of updating gas prices compared to the assumptions from the end of 2018.

Before the deduction of impairment allowances of property, plant and equipment and intangible assets EBITDA LIFO of ORLEN Group in the described period amounted to PLN 3,167 million and was higher by PLN 762 million (y/y).

## 2. The most significant events in the period from 1 January 2019 up to the date of preparation of this report

### FEBRUARY 2019

#### Changes in the composition of the Supervisory Board

Mr Mateusz Henryk Bochacik resigned with effect from 15 February 2019 from the position of PKN ORLEN Supervisory Board Member. Mr Bochacik justified his resignation by personal reasons that prevent him from continuing to effectively carry out the Company's Supervisory Board member mandate.

#### Information on Metathesis Unit building investment

On 20 February 2019 PKN ORLEN announced that the currently under-construction metathesis unit in the Plock Production Plant is in the final stage of the commissioning phase. Following the completion of all steps within the commissioning procedures, loading up of the unit and the stabilization of the process parameters, process adjustment and a guarantee measurements will be conducted and the investment process will be completed. PKN ORLEN will announce the completion of the investment process in a separate regulatory announcement.

### APRIL 2019

#### PKN ORLEN submitted an offer to Ruch S.A.

PKN ORLEN announced that on 11 April of the current year it submitted an offer to provide financing in connection with the intention to acquire 100% of Ruch S.A. shares. The decision was preceded by a due diligence investigation of the company. The investor foresees the opportunity for restructuring and exploitation synergies between the Ruch's existing business model and the dynamically developing retail segment of PKN ORLEN. The finalization of the offer will depend, among others, on the decisions of Ruch's creditors and obtaining the consent of the Antitrust Authority to acquire the company's shares.

#### Agreement regarding building of "Research and Development Centre in Plock"

PKN ORLEN announced that on 24 April 2019 the Company's Management Board decided to invest in a "Research and Development Centre in Plock" ("RDC") and the Company's Supervisory Board gave consent for PKN ORLEN to assume liabilities under the agreement on the building of the RDC, which was followed by the conclusion of an agreement with Budimex S.A. for its construction. The maximum value of the agreement will amount to approximately PLN 167 million and the total cost of the investment will amount to approximately PLN 184 million. The finalization of the investment is planned by the end of 2020.

The RDC in Plock is a necessary part of the PKN ORLEN 2018 Program of the Petrochemical Segment Development ("Program") and completion of the research infrastructure of the ORLEN Group. It will function as a facility to carry out research and to support the other projects included in the Program as well as the further extension of the value chain of petrochemical production announced as part of the PKN ORLEN Strategy. It will also be a place to undertake research in the other areas of the ORLEN Group's activity.

#### Agreement for building a nitric acid and neutralization installation by ANWIL S.A.

PKN ORLEN announced that on 24 April 2019 ANWIL S.A. signed an agreement with Thyssenkrupp Industrial Solutions AG for the design, deliveries and building "in turn key" formula of a nitric acid and neutralization installation in ANWIL S.A. in Wloclawek.

The building of a nitric acid and neutralization installation is a key stage in the realization of investment into the extension of the fertilizer production capacities of ANWIL S.A. The agreement signed with Thyssenkrupp Industrial Solutions AG is the first of three most important contracts to be concluded in relation to the extension of the fertilizer production capacities of ANWIL S.A.

The project assumes an annual increase of fertilizers production capacities of 495 thousand tons, i.e. to the level of 1,461 thousand tons annually. The estimated total cost of the investment amounts to approximately PLN 1.3 billion. The finalization of the investment is planned by the close of the first half of 2022. After realization of the project it is estimated that the operating profit increased by depreciation and amortization (EBITDA) of ANWIL S.A. may increase by approximately EUR 57 million annually.

#### Temporary suspension of crude oil deliveries via the „Friendship” pipeline to the Production Unit in Plock

PKN ORLEN announced that on 24 April 2019 at 22:36 it received from PERN SA. information regarding the suspension of crude oil deliveries via the „Friendship” pipeline to the Production Unit in Plock. The reason of the suspension was the significant decline in the quality of crude oil supplied to the Adamowo Depot, where the crude oil is received from the East before being forwarded to Miszewko Strzałkowskie Depot, near Plock.

The above situation neither bore influence on the level of crude oil throughput in the refinery in Plock. PKN ORLEN is prepared to receive alternative crude oil supplies. For the last two years PKN ORLEN has consistently realized a policy of crude oil supply diversification, thanks to which currently almost 50% of crude oil supplied to the Production Unit in Plock comes from supply directions other than Russian, i.e. from Norway, Angola, Nigeria and Saudi Arabia. Additionally, PKN ORLEN has sufficient crude oil inventories to allow for production to continue. As a result there is currently no risk of production limitation due to the suspension of feed stock supplies deliveries via the „Friendship” pipeline.

#### Temporary suspension of crude oil deliveries via the „Friendship” pipeline to the refinery in Litvinov

PKN ORLEN announced that on 26 April 2019 UNIPETROL a.s. received from the local operator information regarding the suspension of crude oil deliveries via the „Friendship” pipeline to the refinery in Litvinov, belonging to the ORLEN Group. The reason of the suspension was the significant decline in the quality of crude oil supplied via the „Friendship” pipeline.

The above situation has not influence the level of crude oil throughput in the UNIPETROL a.s. refineries. As a result there is currently no risk of production limitation due to suspension of the raw material deliveries via the „Friendship” pipeline. The crude oil throughput at ORLEN Lietuva is not currently affected.

#### Metathesis Unit building investment completed

PKN ORLEN announced that on 30 April 2019 it signed a certificate with Elektrobudowa S.A. on the basis of which the realisation of the investment process of the Metathesis Unit building at the production plan in Plock has been completed. The total investment expenditures spent by the Company for the project of the Metathesis Unit building amounted to approximately PLN 400 million.

### MAY 2019

#### Resumption of crude oil deliveries via the „Friendship” pipeline to the refinery in Litvinov

PKN ORLEN announced that UNIPETROL a.s. received from the local operator information regarding the resumption of good quality crude oil supplies via the „Friendship” pipeline to the refinery in Litvinov, belonging to the ORLEN Group.

The suspension of crude oil deliveries via the „Friendship” pipeline, which lasted from 26 April 2019, did not influence the level of crude oil throughput in the UNIPETROL a.s. refineries.

**JUNE 2019****Resumption of crude oil deliveries via the „Friendship” pipeline to the Production Unit in Plock**

PKN ORLEN announced that on 9 June 2019 it received from PERN SA. an information about resumption of deliveries of crude oil with contractual quality, via the „Friendship” pipeline to the Production Unit in Plock. The suspension of crude oil deliveries via the „Friendship” pipeline, which lasted from 24 April 2019, did not influence the level of crude oil throughput in Plock refinery.

**Changes in the composition of the Supervisory Board**

PKN ORLEN announced that Mr Radosław Kwaśnicki resigned with the effect from 14 June 2019 from the position of the PKN ORLEN Supervisory Board Member (and at the same time from the position of the Deputy Chairman of the PKN ORLEN Supervisory Board). Mr Radosław Kwaśnicki indicated that reasons of his resignation are issues not connected with the Company. The Ordinary General Meeting of Shareholders on 14 June 2019 appointed Members of the PKN ORLEN Supervisory Board for a new term of office as follows:

- Izabela Felczak-Poturnicka – Chairwoman of the Company’s Supervisory Board,
- Barbara Jarzembowska – Member of the Company’s Supervisory Board,
- Andrzej Kapala – Member of the Company’s Supervisory Board,
- Michał Klimaszewski – Member of the Company’s Supervisory Board,
- Jadwiga Lesisz – Member of the Company’s Supervisory Board,
- Małgorzata Niezgoda – Member of the Company’s Supervisory Board,
- Anna Sakowicz-Kacz – Member of the Company’s Supervisory Board,
- Andrzej Szumański – Member of the Company’s Supervisory Board,
- Anna Wójcik – Member of the Company’s Supervisory Board.

**Agreement for building a granulation unit by ANWIL S.A.**

PKN ORLEN announced that on 28 June 2019 ANWIL S.A. signed an agreement with Tecnimont S.p.A. for design, deliveries and building “in turn key” formula a granulation unit in ANWIL S.A. in Włocławek (“Agreement”).

The agreement signed today with Tecnimont S.p.A. is the second of the three most important contracts to be concluded within the frames of the extension of fertilizers production capacities in ANWIL S.A.

The project assumes increase of fertilizers production capacities by 495 thousand tons annually, ie. to the level of 1,461 thousand tons annually. Estimated total cost of the investment amounts to approximately PLN 1.3 billion. The finalization of the investment is planned by the half of 2022. After realization of the project it is estimated that the operating profit EBITDA of ANWIL S.A. may increase by approximately EUR 57 million annually. PKN ORLEN holds 100% of shares in the share capital in Anwil S.A.

**JULY 2019****Submission to the European Commission a notification for concentration regarding the planned taking capital control directly or indirectly over Grupa LOTOS S.A. by PKN ORLEN S.A.**

PKN ORLEN announced that on 3 July 2019 it submitted to the European Commission a notification for concentration (“Notification”) regarding the planned taking capital control directly or indirectly over Grupa LOTOS S.A. with headquarters in Gdansk (“Transaction”). Notification submitted by the Company, initiates the formal proceedings regarding control of concentration.

Notification includes, apart from the description of the parties and Transaction assumptions, description of parties activity on the certain markets and presents arguments on the influence of the Transaction on the competition on that markets. There has been enclosed a set of internal documents of both companies, that should allow the European Commission to verify the accuracy of the presented arguments.

**Dismissal of shareholder’s appeal against the statement of claim for repealing of the resolutions of Ordinary General Meeting**

PKN ORLEN announced that on 17 July 2019 the Appeal Court in Lodz I Civil Division has dismissed in whole a shareholder’s appeal against verdict of court of first resort dismissing in whole the shareholder’s statement of claim for repealing of the following resolutions of PKN ORLEN Ordinary General Meeting dated 26 June 2018:

1. to approve the Directors’ Report on the activities of the ORLEN Group and PKN ORLEN S.A. for the year ended 31 December 2017,
2. to approve the financial statements of PKN ORLEN S.A. for the year ended 31 December 2017,
3. to grant discharge to the Management Board of PKN ORLEN S.A. members for performance of their duties for the year ended 31 December 2017,
4. to grant discharge to the Chairman of the Supervisory Board of PKN ORLEN S.A. for performance of her duties for the year ended 31 December 2017.

**AUGUST 2019****Agreement between PKN ORLEN S.A., the State Treasury and Grupa LOTOS S.A. in relation to a transaction for the purchase of shares in Grupa LOTOS S.A. by PKN ORLEN S.A. from the State Treasury**

PKN ORLEN announced that on 26 August 2019 an agreement was signed between the State Treasury, the Company and Grupa LOTOS S.A. headquartered in Gdansk (“Grupa LOTOS”) in relation to a transaction for the purchase of shares in Grupa LOTOS S.A. by the Company from the State Treasury (the “Agreement”), (“Transaction”), where the Transaction is aimed at taking capital control directly or indirectly over Grupa LOTOS by the Company.

The Agreement is non-binding and does not create any obligations for the State Treasury, the Company or Grupa LOTOS with respect to the execution of the Transaction, but only defines their common understanding of the anticipated shape of the Transaction and further cooperation in its execution. Parties to the Agreement may detail or differently regulate the shape of the Transaction as well as its additional elements in separate contracts or other agreements. The Agreement is not an offer or preliminary contract under Polish civil code and it does not form any other type of legal act obligating the State Treasury to realise the Transaction.

The Agreement confirms the Transaction structure specified in the letter of intent concluded on 27 February 2018 between the State Treasury and the Company, provided that the structure will be clarified at the further stage of cooperation, in particular on the basis of remedies resulting from the future decision of the European Commission regarding concentration approval. Additionally, it also indicates further direction of the consolidation project of the Company and Grupa LOTOS that is aimed at the full consolidation of the above mentioned companies and their enterprises in order to obtain the maximum effects of synergies.

Moreover, the Agreement includes in particular provisions regarding:

- 1) the method of determining the price of the sale of Grupa LOTOS shares – with particular emphasis on the need to use at least two commonly used and recognised methods for valuation (in the case of Grupa LOTOS shares sales by different way than a tender offer) and the need to determine the price according to the general applicable law (in the case of Grupa LOTOS shares sales by the way of a tender offer);
- 2) preliminary conditions for realization of the first stage of the consolidation project that includes not only the European Commission approval for concentration but also removing or modifying the voting cap regulations at the general meeting included in the Grupa LOTOS Articles of Association as well as obtaining necessary administrative and corporate approvals;



3) exercising the voting right relating to Grupa LOTOS shares by the Company and the State Treasury after the Transaction; in case the tender offer results in a proportional reduction of the State Treasury subscriptions for Grupa LOTOS shares sales, it is the intention of the Company and the State Treasury, subject to potential different written agreements, that the voting right at the Grupa LOTOS general meeting will be exercised independently and no written or verbal agreement on Grupa LOTOS shares purchase, on compatible exercising of voting right at the Grupa LOTOS general meeting, neither on conducting the permanent policy towards Grupa LOTOS will bind them.

Grupa LOTOS as a signatory of the Agreement confirmed its knowledge regarding the planned consolidation project as well as a declaration of will to duly cooperate with the State Treasury and the Company within the frames of general applicable law, including the cooperation in the process of obtaining the European Commission's approval for concentration and submission of the statement of the Grupa LOTOS Management Board on the planned tender offer for its shares.

The Agreement terminates on the day when the State Treasury subscribes on the disposal of all Grupa LOTOS shares owned by the State Treasury as a reply for the tender offer announced by the Company, or on 30 June 2020 – depending which date will fall earlier.

**SEPTEMBER 2019**
**ANWIL S.A. concluded an agreement for building an OSBL infrastructure within the frames of the extension of fertilizers production capacities**

PKN ORLEN announced that on 12 September 2019 ANWIL S.A. signed an agreement with PROCHEM S.A. for building an OSBL infrastructure (Outside Battery Limits – supporting infrastructure) in ANWIL S.A. in Wloclawek ("Agreement").

The Agreement signed with PROCHEM S.A. is the last of three most important contracts concluded within the frames of the extension of fertilizers production capacities in ANWIL S.A.

The project assumes increase of fertilizers production capacities by 495 thousand tons yearly, ie. to the level of 1 461 thousand tons yearly. Estimated total cost of the investment amounts to approximately PLN 1.3 billion. The finalization of the investment is planned by the half of 2022. After realization of the project it is estimated that the operating profit EBITDA of ANWIL S.A. may increase by approximately EUR 57 million yearly.

**3. Other information**
**3.1. Composition of the Management Board and the Supervisory Board**

As at the date of preparation of this interim condensed consolidated financial statements, the composition of the management and supervisory bodies of PKN ORLEN is as follows:

**Management Board**

Daniel Obajtek	– President of the Management Board, Chief Executive Officer
Armen Konrad Artwich	– Member of the Management Board, Corporate Affairs
Patrycja Klarecka	– Member of the Management Board, Retail Sales
Zbigniew Leszczyński	– Member of the Management Board, Development
Wiesław Protasewicz	– Member of the Management Board, Chief Financial Officer
Michał Róg	– Member of the Management Board, Wholesale and International Trades
Józef Węgrecki	– Member of the Management Board, Operations

**Supervisory Board**

Izabela Felczak-Poturnicka	– Chairwoman of the Supervisory Board
Andrzej Szumański	– Vice-Chairman of the Supervisory Board, Independent Member of the Supervisory Board
Anna Wójcik	– Secretary of the Supervisory Board
Barbara Jarzembowska	– Independent Member of the Supervisory Board
Andrzej Kapała	– Independent Member of the Supervisory Board
Michał Klimaszewski	– Independent Member of the Supervisory Board
Jadwiga Lesisz	– Member of the Supervisory Board
Małgorzata Niezgodą	– Member of the Supervisory Board
Anna Sakowicz-Kacz	– Independent Member of the Supervisory Board

**3.2. Shareholders holding directly or indirectly via related parties at least 5% of total votes at the Parent's General Shareholders' Meeting to the submission date of this report**

Shareholder	Percentage share in total voting rights at Shareholder's Meeting as at submission date	Number of shares as at submission date
State Treasury	27.52%	117 710 196
Nationale-Nederlanden OFE*	7.61%	32 544 000
Aviva OFE*	5.85%	25 000 000
Other	59.02%	252 454 865
	<b>100.00%</b>	<b>427 709 061</b>

\* according to the information from the Ordinary General Shareholders' Meeting of PKN ORLEN of 14 June 2019

**3.3. Changes in the number of the Parent Company's shares held by the Management Board and the Supervisory Board Members**

As at the date of preparation of this interim condensed consolidated financial statements, Members of the Management Board and the Supervisory Board did not hold any shares in PKN ORLEN.

In the period covered by this interim condensed consolidated financial statements, there were no changes in the ownership of PKN ORLEN shares held by Members of the Management Board and the Supervisory Board.

**3.4. Information on loan sureties or guarantees granted by the Parent Company or its subsidiaries to one entity or its subsidiary where the total value of existing sureties or guarantees is significant**

PKN ORLEN is the guarantor of the 2 tranches of Eurobonds issued by an irrevocable and unconditional guarantees issued to the bondholders. The guarantees were granted for the duration of the Eurobond issue as in the following table:

	Nominal value		Subscription date	Expiration date	Rating	Value of guarantee issued	
	EUR	PLN				EUR	PLN
Eurobonds	750	3 318 **	7.06.2016	7.06.2023	BBB-, Baa2	1 100	4 811
Eurobonds	500	2 131 *	30.06.2014	30.06.2021	BBB-, Baa2	1 000	4 374
	<b>1 250</b>	<b>5 449</b>				<b>2 100</b>	<b>9 185</b>

The bonds have a fixed interest rate of 2.5%.

\* translated using exchange rate as at 31 December 2014

\*\* translated using exchange rate as at 31 December 2016

The value of guarantees granted was translated using the exchange rate as at 30 September 2019

Moreover, as at 30 September 2019 and as at 31 December 2018, the Group granted sureties and guarantees to subsidiaries for third parties of PLN 1,046 million and PLN 1,540 million, respectively, and mainly related to the timely payment of liabilities by subsidiaries.

**3.5. Statement of the Management Board regarding the possibility to realize previously published forecasts of current year results**

The ORLEN Group did not publish forecasts of its results for a particular year.

QUARTERLY FINANCIAL INFORMATION  
PKN ORLEN

**FOR THE 3<sup>rd</sup> QUARTER**

**2019**

PREPARED IN ACCORDANCE WITH INTERNATIONAL  
FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION



## C. QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN

## Separate statement of profit or loss and other comprehensive income

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
Sales revenues	66 666	23 608	63 701	24 495
<i>revenues from sales of finished goods and services</i>	37 442	13 208	34 304	13 115
<i>revenues from sales of merchandise and raw materials</i>	29 224	10 400	29 397	11 380
Cost of sales	(59 256)	(20 920)	(57 033)	(22 042)
<i>cost of finished goods and services sold</i>	(31 079)	(10 882)	(28 605)	(11 005)
<i>cost of merchandise and raw materials sold</i>	(28 177)	(10 038)	(28 428)	(11 037)
<b>Gross profit on sales</b>	<b>7 410</b>	<b>2 688</b>	<b>6 668</b>	<b>2 453</b>
Distribution expenses	(3 184)	(1 117)	(2 101)	(731)
Administrative expenses	(682)	(223)	(594)	(199)
Other operating income	397	133	458	73
Other operating expenses	(391)	(183)	(175)	(55)
(Loss)/reversal of loss due to impairment of financial instruments	(31)	(17)	(2)	7
<b>Profit from operations</b>	<b>3 519</b>	<b>1 281</b>	<b>4 254</b>	<b>1 548</b>
Finance income	1 088	218	2 060	389
Finance costs	(872)	(439)	(1 351)	(123)
<b>Net finance income and costs</b>	<b>216</b>	<b>(221)</b>	<b>709</b>	<b>266</b>
(Loss)/reversal of loss due to impairment of financial instruments	7	(1)	8	2
<b>Profit before tax</b>	<b>3 742</b>	<b>1 059</b>	<b>4 971</b>	<b>1 816</b>
Tax expense	(680)	(191)	(766)	(330)
<i>current tax</i>	(650)	(260)	(753)	(302)
<i>deferred tax</i>	(30)	69	(13)	(28)
<b>Net profit</b>	<b>3 062</b>	<b>868</b>	<b>4 205</b>	<b>1 486</b>
<b>Other comprehensive income:</b>				
<b>which will not be reclassified subsequently into profit or loss</b>	<b>(1)</b>	<b>(3)</b>	<b>(6)</b>	<b>(1)</b>
<i>gains/(losses) on investments in equity instruments at fair value through other comprehensive income</i>	(1)	(3)	(7)	(1)
<i>deferred tax</i>	-	-	1	-
<b>which will be reclassified into profit or loss</b>	<b>(108)</b>	<b>(83)</b>	<b>(124)</b>	<b>60</b>
<i>hedging instruments</i>	(222)	(105)	(229)	48
<i>hedging costs</i>	89	3	76	26
<i>deferred tax</i>	25	19	29	(14)
	<b>(109)</b>	<b>(86)</b>	<b>(130)</b>	<b>59</b>
<b>Total net comprehensive income</b>	<b>2 953</b>	<b>782</b>	<b>4 075</b>	<b>1 545</b>
Net profit and diluted net profit per share (in PLN per share)	7.16	2.03	9.83	3.47



**Separate statement of financial position**

	30/09/2019 (unaudited)	31/12/2018
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	15 164	15 611
Intangible assets	863	755
Right-of-use asset	2 231	-
Shares in related parties	15 300	15 090
Derivatives	60	118
Long-term lease receivables	21	-
Other assets	1 340	1 016
	<b>34 979</b>	<b>32 590</b>
<b>Current assets</b>		
Inventories	9 557	9 889
Trade and other receivables	8 700	7 709
Current tax assets	4	8
Cash	5 352	3 461
Non-current assets classified as held for sale	50	149
Derivatives	413	450
Short-term lease receivables	1	-
Other assets	500	541
	<b>24 577</b>	<b>22 207</b>
<b>Total assets</b>	<b>59 556</b>	<b>54 797</b>
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY</b>		
Share capital	1 058	1 058
Share premium	1 227	1 227
Hedging reserve	95	203
Revaluation reserve	(7)	(6)
Retained earnings	30 717	29 152
<b>Total equity</b>	<b>33 090</b>	<b>31 634</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Loans, borrowings and bonds	8 383	8 641
Provisions	519	520
Deferred tax liabilities	738	734
Derivatives	69	84
Lease liabilities	1 866	-
Other liabilities	124	257
	<b>11 699</b>	<b>10 236</b>
<b>Current liabilities</b>		
Trade and other liabilities	10 364	8 853
Lease liabilities	345	-
Liabilities from contracts with customers	257	213
Loans, borrowings and bonds	354	1 122
Provisions	386	376
Current tax liabilities	65	376
Derivatives	354	324
Other liabilities	2 642	1 663
	<b>14 767</b>	<b>12 927</b>
<b>Total liabilities</b>	<b>26 466</b>	<b>23 163</b>
<b>Total equity and liabilities</b>	<b>59 556</b>	<b>54 797</b>



## Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
01/01/2019	2 285	203	(6)	29 152	31 634
Net profit	-	-	-	3 062	3 062
Items of other comprehensive income	-	(108)	(1)	-	(109)
<b>Total net comprehensive income</b>	-	<b>(108)</b>	<b>(1)</b>	<b>3 062</b>	<b>2 953</b>
Dividends	-	-	-	(1 497)	(1 497)
<b>30/09/2019</b>	<b>2 285</b>	<b>95</b>	<b>(7)</b>	<b>30 717</b>	<b>33 090</b>
(unaudited)					
01/01/2018 (approved data)	2 285	253	-	25 027	27 565
Impact of IFRS 9 adoption	-	-	-	(24)	(24)
01/01/2018 (converted data)	2 285	253	-	25 003	27 541
Net profit	-	-	-	4 205	4 205
Items of other comprehensive income	-	(124)	(6)	-	(130)
<b>Total net comprehensive income</b>	-	<b>(124)</b>	<b>(6)</b>	<b>4 205</b>	<b>4 075</b>
Dividends	-	-	-	(1 283)	(1 283)
<b>30/09/2018</b>	<b>2 285</b>	<b>129</b>	<b>(6)</b>	<b>27 925</b>	<b>30 333</b>
(unaudited)					



## Separate statement of cash flows

	9 MONTHS ENDED 30/09/2019 (unaudited)	3 MONTHS ENDED 30/09/2019 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)
<b>Cash flows from operating activities</b>				
<b>Profit before tax</b>	<b>3 742</b>	<b>1 059</b>	<b>4 971</b>	<b>1 816</b>
Adjustments for:				
Depreciation and amortisation	1 288	440	1 007	344
Foreign exchange (profit)/loss	133	219	207	(140)
Net interest	186	60	182	57
Dividends	(470)	(5)	(840)	-
(Profit)/Loss on investing activities	92	44	(276)	(180)
Change in provisions	314	74	160	59
Change in working capital	694	646	(1 633)	589
<i>inventories</i>	378	228	(2 122)	(873)
<i>receivables</i>	(988)	178	(2 228)	(625)
<i>liabilities</i>	1 304	240	2 717	2 087
Other adjustments, incl.:	(204)	34	(146)	(31)
<i>rights received free of charge</i>	(208)	(68)	(202)	(75)
Income tax (paid)	(956)	(278)	(413)	(135)
<b>Net cash from operating activities</b>	<b>4 819</b>	<b>2 293</b>	<b>3 219</b>	<b>2 379</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(990)	(410)	(1 242)	(403)
Acquisition of shares	(54)	(53)	(4 502)	(745)
Outflows from additional payments to equity	(296)	(83)	(48)	(48)
Disposal of property, plant and equipment, intangible assets and right-of-use asset	177	11	168	11
Interest received	44	13	24	9
Dividends received	468	9	666	190
Expenses from non-current loans granted	(370)	(229)	(50)	(15)
Proceeds from non-current loans granted	4	1	4	1
Proceeds/(Expenses) from current loans granted	1	-	(60)	-
Change in cash related to purchase of non-controlling interest of UNIPETROL, a.s.	200	-	-	-
Proceeds/(Outflows) from cash pool facility	134	(15)	222	(67)
Settlement of derivatives not designated as hedge accounting	81	61	175	65
Other	(17)	(12)	-	1
<b>Net cash (used) in investing activities</b>	<b>(618)</b>	<b>(707)</b>	<b>(4 643)</b>	<b>(1 001)</b>
<b>Cash flows from financing activities</b>				
Proceeds from loans received	-	-	2 075	-
Bonds issued	509	-	1 271	522
Redemption of bonds	(1 619)	(220)	(810)	(300)
Interest paid from loans, borrowings, bonds and cash pool	(222)	(19)	(268)	(70)
Interest paid on lease	(37)	(12)	(5)	(2)
Dividends paid	(1 497)	(1 497)	(1 283)	(1 283)
Proceeds from cash pool facility	771	318	407	627
Payments of liabilities under lease agreements	(233)	(85)	(18)	(5)
Other	-	-	(2)	(2)
<b>Net cash from/(used in) financing activities</b>	<b>(2 328)</b>	<b>(1 515)</b>	<b>1 367</b>	<b>(513)</b>
<b>Net increase/(decrease) in cash</b>	<b>1 873</b>	<b>71</b>	<b>(57)</b>	<b>865</b>
Effect of changes in exchange rates	18	38	3	(47)
Cash, beginning of the period	3 461	5 243	5 477	4 605
<b>Cash, end of the period</b>	<b>5 352</b>	<b>5 352</b>	<b>5 423</b>	<b>5 423</b>
<i>including restricted cash</i>	18	18	53	53

This quarterly report was approved by the Management Board of the Parent Company on 23 October 2019.

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Daniel Obajtek  
President of the Board

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Armen Artwich  
Member of the Board

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Patrycja Klarecka  
Member of the Board

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Zbigniew Leszczyński  
Member of the Board

.....  
Wiesław Protasewicz  
Member of the Board

.....  
Michał Róg  
Member of the Board

.....  
Józef Węgrecki  
Member of the Board